# THE IMPERIAL BANKS

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BY

A. S. J. BASTER, B.Com., B.Sc. (Econ.) (Lond.)

Assistant Lecturer in Economics, University College, Exeter

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# PREFACE

This book is the third of a series of investigations into some aspects of present-day British Banking, undertaken by the Department of Economics at University College, Exeter. It represents an attempt to tell something of the history and present position of the well-defined group of London banks operating mainly in the countries of the British Empire. It is the intention of the author to complete the work later by a similar study of the adventures of British banks in foreign countries.

No general comprehensive account of the work of the British Overseas Banks has ever been published in England, and this fact may serve both to justify the present work and to excuse its imperfections. Moreover, with the exception of South Africa (Professor Arndt's admirable *Banking and Currency Development in South Africa* would have saved me much trouble had it appeared sooner), no recent work on the separate colonial banking systems has been done. This obviously remains to be undertaken by some investigator on the spot; but it did seem to me that an account of the work of the "Imperial" banks from the English point of view might have some present value, if only to show the place of these banks in the British banking system and in the London Money Market. The present study was therefore undertaken with these considerations in mind. Discussion of the currency history of the Dominions and Colonies, upon which a good deal has been written already, has been avoided as far as possible.

The work has been interesting ; the story of the early struggles of the Exchange Banks, operating in the Far East and India, and their rapid rise to a position of immense power and prestige, has in particular an unforgettable glamour which invests the most trifling details with a deceptive allurement, and I have expunged many interesting trivialities with regret. The general historical part of the book, however, remains detailed, partly to illustrate the argument and partly because of the interesting associations with institutions now grown to world-wide importance. I decided not to attempt what might have been an informative, though unfruitful contrast, with certain foreign institutions, largely because the Imperial banks are almost unique and certainly have a much longer and wider experience than any European or American competitor which is in the least comparable. There are perhaps recognizable counterparts of the British Exchange banks in France and Holland, but none whatever of the Dominion banks operated from London.

I have an impossibly large number of public acknowledgements to make. The help I have received from the sources whence I anticipated most, has been usually negligible ; but from many unexpected sources I have had much real assistance —some of which I have acknowledged in the text. In particular, Mr. Wilkinson of the Colonial Office, the Superintendent of Records at the India Office, Mr. Sheldrake of the Mercantile Bank of India, Mr. Beaumont Pease of Lloyds Bank, Mr. Spring Rice of Grace Bros., Mr. W. O. Stevenson of Barclays Bank, and Mr. Lewin of the Royal Empire Society, have helped me very considerably, but naturally incur no sort of responsibility, either in an official or private capacity, for the contents of this book. Mr. J. Sykes, my chief, has stimulated me in many unusual ways and has read my MS., without being

answerable, of course, for detail errors, of which I should appreciate notice. I thank the Editors of the *Banker* and the *Economist* for permission to reproduce some facts which have appeared in articles of mine in these journals. Lastly, I have received welcome financial assistance from the University College, Exeter, which I am pleased to acknowledge here.

A. S. J. B.

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## CHAPTER I

## INTRODUCTORY

The founding of several of the largest and most successful Empire banks in the late thirties of the nineteenth century may be explained largely in terms of the general popularity of overseas investment in England after the Napoleonic Wars. It is a curious fact that the important period of British foreign investment should have come after this exhausting struggle, Great Britain being able, within the next generation, not only to finance domestic development but also to invest immense sums abroad; and it is a development capable of striking demonstration. For instance, "scarcely had the post-war slump spent its initial force when in 1817 the firm of Baring Bros. was lending gold to the Second Bank of the United States and had plunged into the intricacies of the financial reconstruction of Europe."[1] It is true that the most formidable rival in overseas investment—Holland—had been largely eliminated since the failure of the Dutch East India Company and the Bank of Amsterdam, and this must have diverted considerable capital into investments formerly monopolized by the Dutch; but the period of major development after 1820 is explained by Tooke rather by reference to the fall in money rates at home and the consequent increased attention given to the more productive investment abroad. At any rate, for the first ten years after the war it is estimated by C. K. Hobson that British foreign investments increased at the rate of 9 million pounds per annum. Much money went into foreign government loans, particularly, of course, those of the new independent South American states, but it is noteworthy that these loans, though much sought after in

[1] Jenks, *Migration of British Capital.*

the early twenties, provided neither great security nor fabulous returns.[1] Cheap and easy money for overseas borrowers was at any rate a striking characteristic of the period in which the first Empire banks were founded; "the nation groans beneath the pressure of an abundance of money. Where there is most money there is most complaint. The distressed interest is the moneyed interest—for lenders can find no borrowers and capital is in search of employment."[2]

Contemporaneous with this new popularity of foreign investment, public interest in joint-stock banking was naturally stirred by the Acts of 1826 and 1833. The direct importance of this legislation from the present point of view, was small. The Act of 1826 did not confer the privilege of limited liability, but merely permitted the formation of large co-partnerships (larger than the maximum of six persons allowed by the Act of 1708) with power to sue and be sued in the name of an official of the bank. Although public opinion was not yet prepared for a general extension of the principle of limited liability in business, yet the uncertainty and much greater risks of overseas banking, with control in London, made this privilege so much more necessary in the case of the Imperial banks that the Act of 1826 had little direct effect upon them. It was still possible, however, to obtain a qualified form of limited liability by means of a Royal Charter as in the case of the Bank of England, and it was consequently this method of incorporation which the majority of the early Empire banks favoured. The Acts cited, however, did serve to attract attention to joint-stock banking in general.

It can scarcely be said that the banks were attracted to the colonies because of financial stability, since the currency of most of these areas at that time could only be described as chaotic—their banking systems being either insignificant or absolutely non-existent. Lack of any currency at all

[1] The interesting list of foreign Government loans floated in London, 1818–32, given in Joplin's *Digest of the Evidence on the Bank Charter taken before the Committee of* 1832, gives particulars of 26 loans, only 10 of which were paying interest in 1832, the average rate of interest on the whole amounting to 5½ per cent. only.

[2] *Atlas*, 5/5/1838.

was one of the principal difficulties and what money there was, was of the most variegated origin and condition. This point was often emphasized by the banks themselves as a justification for their existence: "A local currency based upon a capital affording unquestionable security, is much wanted and loudly called for,"[1] in Australia. "A sum of not less than £20,000 in shares of not less than £100 each in a public colonial bank . . . will be necessary for supplying a circulating medium for the uses of the colony,"[2]—New South Wales.

The 1833 Memorial[3] of the Bank of Australasia praying for a Royal Charter also recites that

> "the great inconvenience which has been experienced in the transaction of mercantile affairs in those colonies" [in Australasia and its dependencies and in the southern parts of Africa] "from the want of some approved and uniform circulating medium and which has hitherto tended very much to confine the extent and lessen the advantages of their commercial and agricultural speculations has suggested to your Memorialists the propriety and expediency of devising some plan for facilitating and rendering more secure the money transaction and remittances of the colonists."

The colonies, especially the distant ones like Australia and the Cape, could hardly be expected to possess much coin of their own. Coins had constantly to be imported, but there was always a drain of money for the payment of imports, and in the early stages very few exports at all to balance. Moreover, coins were constantly exported in accordance with Gresham's law wherever inconvertible paper issues were resorted to, so that colonial administrators hit upon all sorts of devices to retain metallic currency in their areas. When, for instance, Governor Macquarie of New South Wales, by arrangement with the East India Company, had 40,000 of the ubiquitous Spanish dollars shipped to Sydney, he

[1] Prospectus of the Union Bank of Australia, dated London, 1/9/1837.
[2] Resolved at a meeting of prominent citizens in Sydney in 1816 convened to discuss the currency question. The foundation of the Bank of New South Wales was subsequently agreed upon.—*Bank of New South Wales—Sketch of Progress, etc.*, 1817–1907.
[3] P.R.O., T.1, 3469.

stamped the middle out, and called it a "dump" of one shilling and threepence, and the ring a "holey" dollar of five shillings, the export value of the silver in the coin being about four shillings and fourpence in 1813. Where a supply of circulating medium did exist, it was generally the result of the scanty and irregular trade with various parts of the world adjacent to the colony, many small transactions being completed in different currencies. The Cape, as a port of call, affords an obvious example of this, but the same situation prevailed in most of the outlying parts of the Empire. Even in Canada, the difficulty persisted.

"The various coins current during the French period, driven to cover during the closing years of French rule by an overwhelming invasion of paper money . . . reappeared at the conquest and took their places as media of exchange along with the coins introduced by the purveyors for the British troops or bought by the British and colonial merchants who established themselves at Quebec and Montreal. The Quebec merchants long continued to be closely in touch with Britain and the Eastern colonies of Nova Scotia and Massachusetts. The Montreal merchants being almost entirely from the colony of New York continued to maintain a close connection and intercourse with that colony . . . in accordance with these influences the standards of exchange introduced into Canada were determined by the colonial affinities of the merchants carrying on the Canadian trade." [1]

In the older "trading" colonies like the West Indies, conditions were not much better. Here, as in many other places in all parts of the world, the coinage was dominated by silver "pieces of eight" or Spanish dollars, but there was a sprinkling of coins from most of the other European nations which had to be rated thereto. The standard to which all coins in the British colonies were rated was sterling and the denominational tables effecting this were, in practice, of extreme complexity and illustrate the obstacles to trade which the currency difficulty must have raised. The following table, which applied to the Leeward Islands in 1740, is a good example:

[1] *History of Canadian Currency, Banking and Exchange*, Prof. W. A. Shortt.

| Gold Coins | £ | s. |
|---|---|---|
| Doubloon | 5 | 12 |
| Spanish (or French) Pistole | 1 | 8 |
| Zequeen | 0 | 14 |
| Portuguesc Moydore | 2 | 2 |
| French Moydors | 2 | 2 |
| French Lewisdore | 1 | 8 |
| Portuguese Johannes | 6 | 6 |
| Portuguese Crusado | 1 | 16 |
| English Guinea | 1 | 13 |
| French Guinea | 1 | 13 |

| Silver Coins | s. | d. |
|---|---|---|
| English Crown | 7 | 6 |
| French Crown | 7 | 0 |
| Spanish pieces of eight | 7 | 0 |
| Spanish Ryall | 0 | 9 |
| French Ryall | 0 | 9 |
| Danzick Skelling | 0 | 9 |

(Abridged from Chalmers' *Colonial Currency*.)

The tables were effective only for short periods, as they attempted to rate gold with silver coins over periods when the market ratio between the two metals was fluctuating, and when clipping of the coinage was a common practice.

Efforts had been made by the home Government to extricate the colonies from this confusion, perhaps the most notable among them being the vain attempt made, in 1825, to introduce British silver into circulation throughout the Empire. "The shilling," as Chalmers eloquently puts it, "was to circulate wherever the British drum was heard." The supply of Spanish dollars—the universal currency for centuries—was cut short by the revolt of the South American colonies. England herself had definitely adopted a gold monometallic standard by the Act of 1816 and was now circulating token silver which (as it appeared to the home Government) could be exported at a profit to pay troops and officials in the colonies. The Treasury Minute of 11/2/1825 which introduced the new arrangement, records the Government's view of the expediency of

"introducing a fixed and uniform medium of exchange for all transactions connected with the public service in the place of the various fluctuating and anomalous currencies which had been created under the pressure of temporary emergency or with views of local and peculiar expediency, in many of these colonies and possessions, during the war, and which have been productive of much private and public inconvenience." [1]

[1] The story of the failure of this arrangement is related by Chalmers in detail. The British silver was specifically underrated as compared with the Spanish dollar (by a mistaken Order in Council) and indirectly underrated as compared with other foreign gold coins. It therefore disappeared from circulation.

Apart from the confusion in metallic money, there was the additional disturbing factor (to which reference was made in the Minute of 1825) of large masses of inconvertible paper money. At the Cape, for instance, the British were endowed with the unenviable heritage of the lax currency policies of the previous owners of the colony, in the form of paper rix-dollars, these depreciating from a sterling value of about 4*s.* in 1806 to 1*s.* 6*d.* in 1825. In Australia, quite early on, a system of settlers selling wheat to the Government stores at a fixed price, and obtaining receipts (with the money value on the face) in return, forced the receipts into circulation and they were at first assured a wide acceptability as they could be exchanged at leisure with the Commissariat Officer for Bills on the Treasury in London. But this was not sufficient, and traders began to issue their own promissory notes, which soon circulated at a discount and naturally encouraged fraud and forgery, so that the commercial affairs of the Colony became eventually plunged into the utmost confusion. In Canada again, during the war of 1812 with the United States, notes had been issued by the Army Bill Office in Lower Canada at rates fixed by the Government, though these were effectively convertible into Bills on the British Treasury and never suffered more than a slight depreciation. In this case it was the contraction of the issue which started the agitation for a note-issuing bank ; in most other cases, it was the unreliability of the local paper currency which provided the best possible argument for the establishment of banks.

The outlook from the point of view of possible local banks relying on limited local resources to deal with these difficulties, was not attractive. Only very large banks, possessed of commanding resources, could hope either to bring much order into the colonial currencies or to make continuous profits in the midst of disorder, and the capitalization of colonial banks in London was therefore indicated. Although large commercial banks were vitally necessary to develop the latent material resources of the colonies, the risks of operating a bank of the size required in a country with a disorganized currency system, from a centre thousands of

miles away, naturally proved a deterrent and had, in any case, far-reaching effects upon the constitution and administration of the first banks.

Altogether apart from this there was an obstacle of peculiar and varying significance in different colonies. The possibility of competition from such small institutions as had been formed and capitalized in the colonies, most probably endowed with all the benefits of patronage from the local government and favoured by firm and comprehensive local business connections, could obviously not be neglected. The following brief survey of the varying stages of development reached by the local banks of the Empire in the thirties will therefore show both the background in which the early Empire banks conducted their operations and the strength of the competition which they might expect to meet on their inception.

It seems reasonable to suggest that the Canadian banking system was the most developed of all the colonial systems. The Canadians were fortunate in having definite inspiration at hand. The genesis of the Canadian banking system is undoubtedly American,[1] and therefore indirectly English, but this was powerfully influenced by a Scotch tradition. Good evidence of the American inspiration is afforded by the striking likeness between the Charter of the Bank of Montreal and that of the First Bank of the United States—many clauses were almost identical. But the charter of the First Bank of the United States was formulated by Alexander Hamilton, the first Secretary of the American Treasury (a former British subject, and of Scotch descent) directly on the model of the Bank of England. The idea of basing some part of the capital on the public debt, for instance, was responsible for the arrangement under which one-fifth of the bank's capital was subscribed by the United States Government, a loan for the same amount being granted at the time. The whole scheme forces irresistibly a comparison between the American bank and the Bank of England. Hamilton,

[1] The following (American) quotation states the case perhaps too strongly : " But for the Civil War, what is now known as the Canadian banking system would everywhere be called the American system." L. F. Johnson, *The Canadian Banking System*.

in fact, admitted that this had been his source. "There is an important fact which exemplifies the fitness of the public debt for a bank fund, and which may serve to remove doubts in some minds on this point: it is this, that the Bank of England, in its first erection, rested wholly on that foundation." Further, "the restriction" (confining the right of the bank to contract debts to the amount of its capital) "exists in the establishment of the Bank of England and as a source of security is worthy of imitation."[1] Although some English influence reached the Canadian banking system indirectly in this way, its strength must not be over-emphasized, since there was little similarity between the Bank of England and the Bank of Montreal as regards fundamental *practice*, and moreover, the banks in Canada were subject to considerable Scotch influence. Scottish immigrants naturally reproduced the characteristics of their home banks (particularly the branch system and the cash credit system) wherever they went, and judging from the proportion of Scottish investors in the first Canadian banks, most observers agree that this influence must have been very telling. Ninety Scotch names figured amongst the 144 subscribers listed on the original charter of the Bank of Montreal for instance—the names leave no doubt as to their origin—and all the signatories of the Articles of Association of the Quebec Bank were Scotch. The Bank of Montreal eventually started its system of agencies at Quebec, Kingston, and York, about forty years after the Bank of Scotland had inaugurated a successful branch system by establishing agencies at Dumfries and Kelso.

The banking system in Canada, therefore, indirectly influenced by English experience, but to a large extent in practical method modelled on the Scotch, would form a not uncongenial atmosphere for the operations of Anglo-Canadian banks formed in London. At the time of the establishment of the Bank of British North America in 1836 the banks in Canada were mostly small institutions and the prospects of the London concern seemed proportionately attractive. In

[1] Hamilton, quoted by Clarke and Hall in *History of the Bank of the United States*, Washington, 1832.

Lower Canada, the Bank of Montreal had been chartered in 1822 by the Provincial Legislature with a nominal capital of £250,000 (which it took nine years to collect) and the Quebec Bank, chartered in the same year, had a capital of £75,000. The Bank of Upper Canada in the other Province and the Gore Bank had each a nominal capital of £100,000 and there were two or three quite small institutions in Nova Scotia and New Brunswick, not one of which could measure its strength against that of the British bank with its £690,000 of paid-up capital. It is noteworthy that the colonial banks were left much freer in their operations, for reasons which will appear later, but their "limited liability," their exemption from the obligation of furnishing frequent and regular bank statements and the lack of adequate restrictions on their note issues, did not prove quite such damaging weapons in the competition with the English bank, which was burdened with many restrictions, since, as a rule, they were conducted so as to respect most of the then known but unwritten rules of sound banking.

The circumstances in the Australian Colonies were not greatly different, except that the need for loanable capital was much more urgent and the confusion of the currency worse. The premium on sterling was subject to violent fluctuations; money-lenders charged anything from 50 per cent. to 70 per cent. per annum in 1804, and the Proclamations of the Governor of New South Wales in 1804 and 1808, which aimed at fixing the rate of interest at 8 per cent. maximum, were quite ineffective. Even when the banks did commence operations, their charges seem extraordinarily high. The rate of interest on investments in Sydney was very high at all times; building investments frequently brought their owners 30 per cent. per annum and 15 per cent. was a common rate for mortgages.[1]

The first bank proposed for Australia, the New South Wales Loan Bank project of Governor Macquarie, was modelled on the Government bank at the Cape and was fortunately vetoed by the Board of Trade; but a meeting was subsequently held in Sydney in 1816 under the Gover-

[1] Coghlan, *Labour and Industry in Australia*, Vol. I.

nor's auspices "to take into consideration the present state of the colonial currency and what would be the consequence of an immediate sterling circulation." The meeting resolved

"that in conviction of the beneficial results that would thus be given to the Colony in every view of its first interests, as well as to put an end to the destructive consequences and embarrassment of the colonial currency, the undersigned then voluntarily pledge themselves as approving the measure of the sterling currency as above suggested, the establishment of a colonial bank, upon proper regulations hereafter to become considered and adopted and to become subscribers thereto and to support the measure with all their influence and interest, provided His Excellency the Governor be pleased to sanction the same with his general approbation and permission." [1]

A Memorial,[2] signed by D. Wentworth amongst others, was eventually presented to the Governor praying him

"to grant on behalf of themselves and others the subscribers to the Bank, by a Charter under the Colonial Seal, all the Rights, Immunities, Privileges, and Title of a Corporation, and of a Joint Stock Company . . . so as to Indemnify and secure your Memorialist and others the subscribers to the said Bank against Risk, or Liability beyond the amount of the Shares, respectively taken by each, of the Capital Stock of the said Bank."

This, unfortunately, was a prerogative of the Crown in England, and it is worth noting that this part of the final Charter, although not seriously questioned at the time, was quite ineffective. Local governments could not grant this privilege without special directions, and consequently all the limited liability banks of the Empire were chartered under rigid control from London. The Memorial also gives interesting evidence of high money rates in New South Wales, since the petitioners sought power to charge interest at the rate of 10 per cent. per annum instead of at the legal maximum of 8 per cent. "as compared with that of 12 per cent. prevailing at Bengal, China and other places with which this Colony must chiefly have Commercial Intercourse and Trade, and to which the Merchants and Traders, and

[1] *Bank of New South Wales—Sketch of progress, etc.*, 1817–1907.
[2] *Historical Records of Australia*, Series I, Vol. IX. I am greatly indebted to Prof. Harte, of Exeter, for obtaining copies of this and other relevant documents for me.

therefore the Public of this Territory, must in some respect become chargeable in all Mercantile Transactions and Investments." Eventually the charter was obtained incorporating the Bank of New South Wales, "for the General and customary uses and purposes of deposit, Loan, and Discount, charging and claiming in respect thereof no higher Rate than 10 per cent. per annum, on a Fund and Stock of £20,000 sterling to be Collected, Raised, and Funded, in and by 200 Shares or Subscriptions of £100 each." In fact, the bank commenced operations with a paid up capital of £3,625, but after two years of existence, its discounts had risen from £12,193 in 1817 to £107,236 in 1819, the class of bills discounted being, moreover, a very exclusive one—in amount from £20 to £500 and with a currency of fourteen days to three months. The note issue expanded accordingly and began to supplant personal promissory notes. It is interesting to note that the first seven directors (who had to live within two miles of Sydney) had, according to the Charter, to be "Absolutely and Unconditionally Free." There were hardly any restrictions upon the business of the Bank, but it might not trade ("except in buying and selling Bullion or Plate") or hold or purchase land.

Currency difficulties were also the cause of the incorporation of the Bank of Australia, another of the Australian local banks. Traders were liquidating their oversea debts by shipping dollars rather than pay the large premium demanded for Treasury Bills, and the Government did not attempt to stop this outflow of coin, as British silver was about to be introduced by the Order in Council of March 1825. Unfortunately the silver was late in coming into circulation and the scarcity of current coin led the Bank of New South Wales, in June 1826, to refuse to renew more than 75 per cent. of its outstanding bills. Private bill discounters were now able to charge 30 per cent. (the bank rate being 10 per cent.), and some Sydney merchants and three ex-directors of the Bank of New South Wales eventually established the Bank of Australia, in August 1826, with a nominal capital of £222,000. By 1834 there were thus only two banks in New South Wales, their paid-up capital being

£8,432. In this year the Commercial Banking Company of Sydney was established—a prominent director being Thomas Potter McQueen, formerly connected with the Bank of Australasia; its nominal capital was £300,000.[1]

The prospects in Australia then, were attractive from some points of view, particularly on account of the high rates of interest to be earned, as against the low cost of gathering English deposits, and the low paid-up capitalization of the existing banks. The Australian colonies, in fact, were the first to receive the benefits of banking assistance from London, the Bank of Australasia being the first of the Chartered Colonial Banks, operated from the home country.

In South Africa, the notorious inadequacy of the Loan and Discount Banks, which were Government institutions, led to the establishment in the thirties of numbers of small local banks. The Loan and Discount Banks were "founded ostensibly for the relief of the public, and for the purpose of checking those usurious transactions which naturally accompany a currency insufficient for the commercial and home transactions of any society."[2] The Loan Bank (also known as the Lombard Bank) was authorized to lend money at 5 per cent. (of which 1 per cent. went to the administration for operating expenses and 4 per cent. went to the local Treasury) on mortgages of land, houses, and merchandise, for eighteen months, and on perishable goods for periods up to nine months. The Bank soon engaged the whole of its capital in renewal mortgage loans, merely paid the interest on these large fixed advances over to the Treasury and had no other function. In 1808 the then Governor of the Cape, Earl Caledon, established a subsidiary joint institution, the Government Discount Bank, under the same management as the Loan Bank. This, with a capital of Rds. 150,000 (about £30,000), started to discount commercial bills, and to take private deposits (the East India Company kept Rds. 400,000 with it at one time), deposits of public money being allocated to it also. By 1814 the capital of this institution

[1] *The Banking Institutions of Australasia*, R. L. Nash.

[2] *Economic History of South Africa*, M. H. de Kock. See also *Banking and Currency Development in South Africa*, Arndt, Part ii., Chapter 1, for a very full account of the Government banks.

was lent out in three months' discounts at 6 per cent., while it vainly attempted to attract deposits at 5 per cent. Inadequate as it was for the growing colony, this was the only commercial bank in the Cape until the foundation of the small local Cape of Good Hope Bank in 1836. A flood of smaller banks followed after this, but the Imperial Banks were kept out of the South African Colonies until the sixties because the Colonial Office was unwilling to subject the feeble Government institutions to competition from powerful London banks. This part of the Empire was therefore a closed area for a quarter of a century after the Anglo-Australian banks had started in Sydney.

India, again, was not a promising field for English banking capital. The deposits and circulation of the original " European " banks (*local* institutions chartered by the East India Company) in India were very low in comparison with Europe.

> " Until the transfer of the Government business to the Bank of Bengal, the amount of its deposits seldom averaged over 85 lacs, or pounds sterling 850,000—a trifle under 80 per cent. on the paid-up capital—a vast difference between the 8 and 11 million sterling generally held by the Union Bank of London, and the London and Westminster Bank and some few others." [1]

Cooke suggested in 1863 that deposits from non-resident Europeans would never be very large, and the natives preferred hoarding or buying landed property. This, of course, implies money rates higher than ever if India was to depend on local banks. Currency difficulties were quite as great as in the colonies because, although the silver rupee was adopted as a standard coin in 1835 by the East India Company, its circulation was not universal.

The entry of London banks into India, moreover, was certain to be resisted. As a commercial concern (until 1833), the East India Company would naturally attempt to gather to itself any profits that there might be in the banking business, and it consequently chartered its own banks. The earliest of these was Warren Hastings' " General Bank

[1] *Rise, Progress and Present Conditions of Banking in India*, Cooke, Calcutta, 1863.

of India," which lived for twenty months,[1] and it was succeeded by the Bengal Bank and the General Bank, but an important system of *private* banks on the European model had also been started in the eighteenth century, by the Agency Houses of Calcutta, to provide the necessary facilities for European traders. The Bank of Hindoostan, for instance, had been founded by Alexander & Co. at Calcutta after the great Famine of 1770 ; Palmer & Co. founded the Calcutta Bank ; the Commercial Bank was founded by Mackintosh & Co., and other Agency Houses like Cruttenden & Co. had a banking department. The series of failures of 1829 to 1832, however, brought most of these banks down temporarily and the institution left was one connected with the Company, that is, the forerunner of the Presidency Banks —the Bank of Calcutta. This was founded in 1806 (the Bank of England model can be distinguished here also) and chartered by the East India Company in 1809, when its name was changed to the Bank of Bengal. Its responsibilities were guaranteed by the Government, who appointed three of the nine directors ; its notes were receivable at the General Treasury, and of the total capital of Sicca Rs. 50 lacs, the Government held one-fifth, so that there appeared good reason for refusing to incorporate an English bank to open branches in India and compete with the Company's own concern. This was made all the more certain as the Bank of Bengal met with some success in its early days and the other Presidency Banks of Bombay and Madras were founded in 1840 and 1842 respectively on its model. Indian experience of this system of semi-Government chartered banks, however, cannot be said to have been very favourable to the principle, although Brunyate's indictment of the system is perhaps too sweeping.[2]

" In 1832," he writes, " the Government Directors had joined in setting aside the stringent rules which they were bound on oath to see enforced and had not even informed the Government of what was going on. The system of control had therefore failed.

[1] See Banerjea, *Indian Finance in the days of the Company*, p. 66, and Sinha, *Early European Banking in India*.
[2] *Account of the Presidency Banks*, Chapter 1, p. 13.

But in 1857 the Government Directors did their duty and gave the Government timely notice of the impending infringement of the terms of the Charter. The Government when they got this information were almost helpless. They were unable to intervene effectively until perhaps the most important safeguard provided in the Bank's constitution had been set aside and then only by using a menace which if enforced, would probably have caused the ruin of the bank. . . . As regards the system of mechanical checks, the minimum cash reserves and so on, the experience on both occasions was that the Directors set the restrictions aside in times of difficulty because they could not help themselves and set them aside at other times because their doing so involved no possible risk."

A total disregard of the restrictions of a Charter took place, of course, at the bank's own risk, and therefore the Charter system cannot be dismissed as summarily as this. At any rate, the Company thought sufficiently well of its banks to preserve them from English competition for a considerable time.

The reason for the eventual penetration of the *English* "Exchange" Banks into India was the fact that the restrictions on the activities of the "Presidency Banks" of the Government were so numerous that many avenues were left open for other institutions to provide certain banking services. The new Charter of the Bank of Bengal of 1839, for instance, permitted buying and selling bills of exchange "payable in India" (a provision inserted by the proprietors themselves) and so excluded foreign exchange business.[1] Further, loans were not to be made for a longer period than three months and had to be secured by two names. Only in 1854 were advances on guaranteed railway shares allowed and dealings in Government and Presidency Bank stock were authorized only in 1855. Writers like Keynes argue that the restricted business of the Presidency Banks contributed to their solvency, if not their prosperity; the restrictions certainly account for the frequent proposals made during the early part of the century for Anglo-Indian banks, and for the crop of small Indian joint-stock banks which the twenty

[1] For the suggested reason that the East India Company made about £250,000 a year profit on remittances. R. M. Martin, *Bank of Asia Proceedings, etc.*

years after 1840 produced. As regards the former, however, the known obstructionist attitude of the Company had the effect for a long time of scaring away English banking capitalists from India.

This short survey of the state of colonial banking systems before the advent of the English banks, supports a conclusion that in Australia, Canada, and the West Indies (where no commercial banks at all were started until rumours of a London project reached the Islands), English capitalists had some chance of success, although the risks attendant on organization from Head-office thousands of miles away, were present in an unknown quantity. Without steamship or telegraph, communication was very slow (the second Inspector of the Bank of Australasia took six months to get to the colony) and Head-office control had a tendency to become stereotyped—characterized by rigid rules and lost opportunities. English deposits flowed freely enough to the colonies in spite of these difficulties, but there was the ever-present problem of getting them back during a crisis when perhaps the export trade of a colony would be seriously affected and no means remain of making home remittances. Currency conditions in the colonies were extremely unsettled, money rates in most cases suspiciously high, specie very scarce, and the local banks generally free, even from what would now be thought the minimum of legislative interference, as well as being strongly entrenched in the favour of local inhabitants.[1] Perhaps a representative of the local Government on the Board of the local bank would strengthen this feeling. It is true that the Treasury consistently frowned on this practice of nominating local officials to bank boards, but the fact that it did so often, shows that the practice was common. The Treasury Minute of 2/11/1826, for instance,[2] states that

' the appointment of Mr. Lithgow as a Director " [of the Bank of New South Wales] "may appear to give an impression that the

[1] This was partly got over by the almost invariable expedient adopted by the Anglo-Colonial banks, of offering a proportion of their capital for subscription in the colony in which they were intended to operate, but the stigma of " foreign banks " remained.

[2] P.R.O., T.1, 3469.

Government are in some way or other participators in the affairs of this Bank, and would ultimately protect those who dealt with it from loss, should the Bank fail in the performance of their engagements, and therefore my Lords are of opinion that Mr. Lithgow should resign this office as soon as may now be practicable. . . ."

Even the chartered banks themselves were not above suggesting such an arrangement, as when the Bank of Australasia, in 1835, wrote from the Hobart branch asking the Lieutenant-Governor to nominate a Government officer to sit on the local Board of the Bank. His Excellency observed [1] " that such an appointment would be an innovation upon the principle which has hitherto guided the Government," but made no reply beyond a blank refusal when the Bank urged that similar appointments had been allowed both in London and at Sydney, and the Treasury in London commended this course of action.

The anomalous position in India in this respect should have given the Treasury food for thought. There the semi-Government institutions, of course, had their Government representatives, but Civil Servants quite commonly sat on ordinary commercial bank Boards also. A Memorial from the mofussil (up country) banks, for instance, to the Governor-General [2] in 1850, records that

"your Memorialists having heard that objections have been offered on the part of Government to gentlemen in the services acting as Directors to these banks, on the plea of their services being exclusively required by the State, most urgently solicit the Government not to interfere with the existing system of management as it is *this form of direction which gives confidence* and constitutes a safeguard of the public and proprietary."

Though attempts were made to secure for the chartered banks in general the same advantages of local support as were enjoyed by the indigenous institutions, yet control from London assisted by merely advisory Boards at the branches had one not insignificant advantage, since it meant less inti-

[1] Letter from the Lieutenant-Governor to the Bank of Australasia, Hobart, dated 31/10/1835, P.R.O., T.1, 3469.

[2] Quoted in the *Bankers' Magazine*, April 1850.

mate relations with the local body of merchants and therefore no excessive advances to Directors and their friends and relatives.

However great their difficulties were, the English banks could not complain of adverse comment in London. The Press of that time was full of enthusiasm for the principle of colonial banks being financed by English capital and directed from London. Two of the available financial journals of the period (diametrically opposed in domestic banking policy) exemplify this. The *Atlas* of 26/9/1840, in an article (apparently written by R. M. Martin, of whom more later) refers to

"the long pending negotiation of a charter for the Bank of Asia, now being brought to a satisfactory conclusion, Her Majesty's Government and the Court of Directors of the East India Company having recognized the principle of chartering a bank for British India. On the establishment of this institution, every dependency of the British Empire will be linked in monetary connection with the mother country. Asia and Australasia, the West Indies, and the Canadas, the Ionian Islands, etc., will each then have their respective banks in England. The benefits resulting from such establishments are incalculable, not merely in a mercantile or financial point of view, for they are also of the utmost social and political utility. They prevent the necessity for the transfer of bullion from one country to another; lower the rates of interest by supplying capital whenever it can be advantageously employed; steady and equalize the exchanges; give confidence to all engaged in distant trading operations; induce the merchant to direct all his skill, energy and means, to the production and transfer of profitable commodities, leaving to the banker the intermediate agency between the buyer and seller of goods, while the powerful and enduring tie of mutual self-interest binds in an indissoluble and peculiarly pleasing union the distant dependency and the parent state. It is surprising that these colonial banks have not long ago been established. . . . All the colonial banks have been profitable investments for their shareholders and the dividends range from 6 per cent. to 9 per cent. per annum, with every prospect of increase."

The prices of colonial bank shares (extracted from the *Atlas*) seem to bear out this eulogy:

| Bank. | Shares. | Each. | Dividend p.a. | Paid up. | Price. | Date. |
|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | |
| Australasia . . . . . . . | 5,000 | 40 | 8 | 40 | 70 | 5/1/1839 |
| ,, . . . . . . . . | 5,000 | 40 | — | 40 | 64 | |
| British North American . . | 20,000 | 50 | — | 25 | 27¼ | |
| Colonial . . . . . . . | 20,000 | 100 | — | 25 | 29¾ | |
| Australasia . . . . . . . | 10,000 | 40 | 8 | 40 | 62½ | 4/1/1840 |
| British North American . . | 20,000 | 50 | — | 30 | 27½ | |
| Colonial . . . . . . . | 20,000 | 100 | 7 | 25 | 31 | |
| Australasia . . . . . . | 10,000 | 40 | 8 | 40 | 55¾ | 2/1/1841 |
| ,, New . . . . | 5,000 | 40 | — | 40 | 52 | |
| British North American . . | 20,000 | 50 | 6 | 40 | 36 | |
| Colonial . . . . . . . | 20,000 | 100 | 8 | 25 | 28 | |
| Australasia . . . . . . . | 15,000 | 40 | 8 | 40 | 53½ | 8/1/1842 |
| ,, New . . . . | 7,500 | — | — | 10 | 13½ | |
| British North American . . | 20,000 | 50 | 6 | 40 | 33 | |
| ,, ,, ,, New . | 7,500 | — | — | 10 | — | |
| Colonial . . . . . . . | 20,000 | 100 | 8 | 25 | 29½ | |

The *Circular to Bankers* (July 6, 1838) describes imperial banks in glowing terms

"as a new element of productive power of corresponding potency and influence for good and evil to that which the steam engine has given us. And whether it enable the enterprising colonist . . . to mortgage his crops and flocks for the object of extending the field of his labours or to construct ships for the fisheries and the transport of merchandise in a manner which he could not do when George III began to reign, it comes to the same . . . when the banking principle is applied to a new country in its first stages of advancement the consequences will be almost marvellous. New banking institutions are rising up and extending their operations in Australasia quite as vigorously as in any part of the world; and they are drawing capital from England to enable them to supply the greatly increasing demand for it. . . . People are growing rich, property is better protected and Banks are being formed in that country; and with the extension of these elements of security, the prejudice and restrictive habits of men of capital will undergo alteration, and money will in the next thirty years flow from England to the new colonies much more freely and copiously than it did to the United States between 1760 and 1790. . . . The rate of interest cannot permanently or for any long period remain at 3 per cent. in London while it is regularly at from 10 to 12 per cent. in Sydney."

It is interesting to speculate to what extent these views were shared by the colonists.

## CHAPTER II

# THE COLONIAL BANK REGULATIONS

It is clear that the great advantage of a Royal Charter to a Colonial Bank having its Head-office in London, was the privilege of limited liability—this at a time when the extension of this privilege was being fiercely contested. Huskisson, speaking in the Bank Charter Amendment Bill Debate of 10 February, 1826, said, "it would be a great improvement if, under a proper system, Charter Banks were established, with only a limited liability. It would no doubt induce many persons of great credit and fortune to invest their money in shares of such banks. But the Bank objected to the extension of this limited liability" to competing institutions at home. The "proper system," therefore, *was* evolved, but it related to chartered *overseas* banks only. The opposition of the Bank of England was, of course, not the sole, or the most important factor at work, the current opinion being that limited liability was a privilege not to be conferred indiscriminately without great risk. A typical argument states that [1]

> "it cannot for a moment be allowed that limitation to the liability of partners in a bank can be desirable. All the advantages derived from safety to the *public* would at once be removed and a blow struck at the very root and principle of responsible banks. Instead of perfect confidence being reposed in these establishments, the same doubt would exist and probably the same results would take place that unfortunately occurred from the failure of so many private banks."

The very fact of incorporation was originally thought to confer limited liability and make it impossible for share-

[1] *Remarks on the Formation and Working of Banks called Joint Stock*, London, 1826.

holders to shoulder any liability in excess of the amount of their shareholding. The "double" liability principle, in fact, as applied to colonial banks, had to be ultimately sanctioned by special legislation—6 Geo. IV. Cap. 91.

"In any Charter hereafter to be granted by His Majesty . . . for the incorporation of any company or body of persons, it shall and may be lawful . . . to declare and provide that the members of such corporation shall be individually liable in their persons and property for the debts, contracts and engagements of such corporation, to such extent . . . as His Majesty . . . may deem fit and proper."

This limitation of liability minimized the risks, which, as suggested in the preceding chapter, were formidable. In addition, the Government granting the charter would impliedly assume the moral responsibility towards subscribing capitalists of satisfying itself about the bona fides of the bank promoters and for similar reasons connected with the prestige of Royal authority, some sort of Government supervision would be continuous throughout the life of the undertaking, so that intending shareholders would have a double safeguard. A further advantage of a Royal Charter was the considerable prestige value which it conferred upon the favoured corporation, and English capitalists were not slow to make the most of this, particularly when the question of the custody of local public moneys was raised, or the recognition by the local Treasury of the Chartered Bank's notes. The Directors of the Bank of Australasia, for instance, assessed the value of their charter in the following terms:

"Looking at the same time to the privilege enjoyed under the Royal Charter of Incorporation by the Bank of Australasia and also to the weight and influence, and above all, to the security to the public which the charter confers, there is no doubt that the advantages which the corporation possesses over the new establishments" [the *non-chartered* Union Bank of Australia] "will be duly appreciated."

Rather exaggerated views of the prestige value of a charter spread to the colonial Governors. In a quarrel with the Bank of Australasia in Van Diemen's Land, for

instance, Governor Arthur told Lord Glenelg [1] that "my great object has been on the one hand to avoid doing any injustice to the Australian Bank which, having received a Charter of Incorporation, must be supposed to be under the protection of H.M. Government." An unsigned pencil comment—"By no means"—suggests what the true attitude of the home Government was. Much of this misapprehension was perhaps reinforced by the common phrase at the end of the old bank charters: "And We do hereby require and enjoin the respective Governors of our said several islands and colonies, for the time being, to give full force and effect to these our letters patent and to be in all things aiding and assisting to the said corporation and their successors."

As to whether the Chartered Banks had preferential rights to the office of custodian of the local government funds, the position was clearer. The principle was laid down in a Treasury Minute of 1838,[2] passed in connection with the opening of public accounts with the Bank of Western Australia: "My Lords are not prepared to sanction the Deposits of Public Money with Banking Establishments in the Colonies except in cases where these establishments belong to a Proprietary incorporated and regulated by a Royal Charter or a local legislative enactment which has received the Royal assent." This even though the Governor claimed that the bank subscribers included a large portion "of the wealthiest and most respectable members of the community" and that the accounts "would enable the Commissariat to make all its payments without preverting to the Note system which the home Government have so much disapproved of."

As regards the recognition of notes by the local Government, this was generally left to its own discretion, though the Treasury apparently quite early considered the possibility of discriminating against notes issued locally. In this connection a Treasury Memorandum of 14/4/1834 prepared in the matter of the deposit of public moneys with the

[1] Letter to Colonial Office, 12/9/1836, P.R.O., T.1, 3470.
[2] 30/7/1838, P.R.O., T.1, 3469.

Bank of Van Diemen's Land and the Derwent Bank, "referring both to the particular cases now in question and to banking establishments in the colonies in general," suggests that

"it seems to be a proper subject for consideration whether it should not be made a general rule that the notes of any bank of issue that may hereafter commence business in any colony shall not be received by the Public Chests unless the parties issuing consent to furnish periodical statements of their assets and liabilities for public information in the matter required with respect to the Chartered Banks." [1]

But nothing was done to put this suggestion into practice.

It is important to note that bank charters thus granted did not (as in the case of those of the Bank of England) confer any monopoly, either of note issue or of the public business, upon the corporation.

"Their Lordships" [of the Board of Trade, on the subject of the Bank of Australasia Charter] "would have objected to any stipulation respecting Government Deposits or any Transactions whatever with the Government *forming part of the Charter* of any bank ; a stipulation of this nature would give an exclusive character to such an Establishment, and the primary condition required by the Lords of this Committee as the foundation for any Banking Establishment is, that it should have no exclusive privilege or suspicion of any." [2]

Moreover, the Colonial Office reiterated the principle in 1838, in regard to the Colonial Bank and the Jamaica Bank, and the Treasury later in regard to the Bank of Mauritius and the Commercial Bank of Mauritius, that several chartered banks might operate in the same territory. This principle was always maintained throughout the century. A further important consideration was that the notes of the banks were certainly not legal tender, an illusion which seems to have been cherished in at least one colony. The Act of Incorporation of the Bank of Jamaica, for instance, contained a vague provision about the notes of the Bank

[1] P.R.O., T.1, 3470.
[2] Letter from the Board of Trade to the Treasury, 31/1/1834, P.R.O., T.1, 3469.

being legal tender, and this evoked a sharp reproof from the Board of Trade:

"In no charter to any colonial bank has the privilege of being legal tender been conferred upon the notes of such establishment—it is the undoubted right of anyone to refuse the notes of any private or incorporated Banking Company in the Colonies, whether the Colonial Bank or any other; nothing can, in their Lordships' opinion, be more prejudicial than that a contrary opinion should, through error, prevail." [1]

It could hardly be expected that unlimited latitude would have been allowed to the promoters of colonial bank projects as to the terms of their charters, especially in view of the foregoing considerations in regard to the moral responsibility of the Government and particularly because of the grant of limited liability. Notably (what seems rather regrettable in view of the favourable political circumstances) the sphere of action was at first invariably limited to one colony or geographical group of colonies, and an opportunity for historical criticism of Empire Banking in action at a time when it might have been very successful, is thus lost to the present generation. Most of the important restrictions were contained in a series of model charter provisions drawn up by the Treasury in co-operation with the Board of Trade, and inserted in all charters relating to the incorporation of banking companies operating in the colonies. These Provisions are of fundamental importance from the present point of view.

The arrangement for the Treasury and the Board to act in concert is interesting because responsibility for the model regulations can be assigned to the Ministers concerned. Firstly:

"Mr. Chancellor of Exchequer suggests to the Board" [of Trade] "that it is of the highest public importance that all such charters should be framed upon a settled and consistent principle and that this result cannot be obtained if such charters are granted indiscriminately by various departments of the State without reference to the Treasury, and that it is therefore

[1] Letter from Board of Trade to Colonial Office, 26/4/1837, P.R.O., T.1, 3479.

expedient that communications should be made to the Secretaries of State for Home Department and for the Colonies as well as to the Lords of the Council requesting that before any application for a bank charter is entertained by these Departments a reference should be made to the Treasury in order to obtain the opinion of that branch of the Government which is more particularly charged with questions relating to the finances and currency of the Empire." [1]

Later, the Board of Trade was brought into this arrangement on *equal* terms.

" In order to ensure the fullest consideration to every proposition for establishing charter banks My Lords judge it expedient before any definite step thereon is taken to refer every such application to the Board of Trade and to obtain a distinct report both on the merits of the case and on the provisions necessary to be introduced in every such charter." [2]

The composition of the original regulations can be thus (at least at first sight) traced to Viscount Althorp, Chancellor of the Exchequer, and Lord Auckland and Charles Poulett Thomson, at the Board of Trade. It is difficult to assign to each minister his proper share of the responsibility because, in the early days at any rate, agreement between the two Departments on clauses in bank charters was by no means a formal matter. The discussion of the Bank of Australasia's Charter (the first one of its kind ever granted), for instance, reveals sharp differences of opinion; the Bank was to forfeit its charter if it suspended cash payments for more than 130 days, but during this period, the Board of Trade advised that no further issue of notes should be permitted, to protect note-holders from even worse losses. The Treasury disagreed with this most decidedly, urging that lack of fresh notes in the case of an important suspension of cash payments in the colonies would probably aggravate matters. In the discussion of the first few bank charters, there are many instances of disagreement like the foregoing.

In addition to this pooling of experience between the Board of Trade and the Treasury, numerous suggestions

[1] Treasury Minute of 11/11/1831, P.R.O., T.1, 3472.
[2] Treasury Minute of 8/4/1833, P.R.O., T.1, 3472.

were made, both official and unofficial, from outside the Central Government. The Colonial Governors were particularly well placed for making such suggestions, but as most of them were soldiers first and administrators afterwards, their contributions in this sphere were not particularly illuminating. There were exceptions—Lieutenant-Colonel Arthur, the Governor of Van Diemen's Land in 1833, had apparently pondered long and deeply on this subject, and his arguments throw some light on the position in his colony, where the Van Diemen's Land Company had proposed to open a bank at Launceston.

"Banking and paper issues," he wrote, "are subjects of peculiar perplexity in a new country, more especially when the proposed Bankers are absentees whose local interests are separate from and perhaps opposed to those of the Community generally and whose wealth is so great as to enable them to control the local money market with the most despotic authority. They might, for instance, make large issues—they might discount largely—and they might then wind up their affairs at a moment's warning, refusing all further accommodation, and the parties who had transacted business with them might be obliged to make the most distressing sacrifices in order to meet their obligations, and a state of things might present itself calculated to bring about for the instant such a depreciation in the price of land and farming stock as to enable the Company to become at a trifling cost possessors of a large proportion of the best land in the County of Cornwall; or they might buy up the Notes of some particular Bank, laying them aside until they had a sufficient number to enable them by an immediate demand to shake or even to destroy its credit and drive it out of competition. It would, in short, possess in relation to the other Banks and the Community, all the power of the Bank of England, while it is by no means certain that it would always use its strength for the benefit and not to the injury of the Community. The state of the circulation of the money market and of the mercantile interest would no longer depend upon the ordinary course of events but upon the fiat of the Van Diemen's Land Company."[1]

Under sufficient restrictions, the Bank would be productive of great advantages—foreign capital would be employed in the colony, commercial intercourse and remit-

[1] Letter of the Governor of Van Diemen's Land to the Colonial Office of 9/4/1833, P.R.O., T.1, 3469.

tance between Hobart and Launceston would be facilitated and this Bank might certainly " keep the others in a wholesome state of dread in regard to their issues." The restrictions to which the Governor thought the Bank should submit are suggestive :

" 1st.—It should not be allowed to lend money on Mortgage —on judgment security or deposit of Title Deeds—nor indeed on real security of any description.

2nd.—It should be confined to discounts on personal credit. Assignments, in security of Merchandise or other moveable property however do not appear objectionable.

3rd.—There should be a receiving House in Hobart to retire such of the Company's Notes as may be sent from Launceston, and much advantage would accrue were it made imperative upon it to draw from Hobart in return, of course, for adequate payments.

4th.—The Local Government should have power from time to time to limit the Company's circulation and the amount they may discount on giving due notice.

5th.—The Company should be required to make quarterly returns to the Colonial Secretary, showing fully the state and amount of their transactions.

6th.—The Charter should be for a limited period only, say 8 years renewable.

7th.—Should it appear that it works injuriously in respect of any provisions made in its favour by Act of Parliament or by Charter, it should be competent for the Lt. Governor in the Executive Council to take cognizance, and to receive proof of the injury and its cause, according to the usage of the Council, and if these be established, to suspend the operation of such provision until the pleasure of His Majesty's Government be ascertained upon a full report to be made herewith."

Apart from the doubtful wisdom of giving fundamental powers to the local Government under sections 4 and 7, these suggestions are reasonable enough and place a proper emphasis upon the prohibition of lending exclusively upon land, a practice which has too often proved a fatal attraction in colonial banking.[1]

At the time the Regulations were being formulated,

[1] Cf. The fantastic land bank scheme of W. Joplin outlined in *A Plan of a System of Territorial Banks for the Colonies* (Miramichi, 1830), for an example of the distorted views of the colonists themselves on the question. The author was the brother of the more famous Thomas Joplin.

another panacea for all the banking ills of the colonies was suggested. This proposal is met with several times in the Colonial Office correspondence, but it seems to have been elaborated most by the Governor of Jamaica.

"The establishment of a Branch Bank of England out of the British islands," [1] he says, "I have never before heard mooted, but I think that nothing could be imagined so likely to be of benefit to this Colony. There is not a single responsible Bank in Jamaica. All deposits, I fear however they are not many, are placed in the hands of Merchants in Kingston, and the proverbial insecurity not only of West Indian landed property, but also of all Commercial Establishments rendering persons of thought unwilling to place their funds in irresponsible hands. I am confident that much money is idly spent, which would under other circumstances be laid by as a provision for the future; another very great inconvenience arises in the present state of the money market from the want of some such public Establishment *free from local influence.* The state of the Exchange or, more properly speaking in the language of Jamaica, of the *Premium on Bills on England* appears to be now in the hands of two or three individuals, whose united efforts can cause at any time to suit their own convenience, a rise or fall in the rates of premium or Exchange; this evil as it strikes me would be completely obviated by such a Branch Bank as I am most anxious to establish here."

As to this suggestion, the Treasury apparently thought something of it but were obliged to point out that the opening by the Bank of England of a branch in Jamaica would be impossible without the assent of the Legislature, and it would also depend on "the powers the Governor and Company of the Bank might possess of forming such an Establishment and the disposition they might feel to exercise those powers." As a result this suggestion came to nothing.

The direct influence of the suggestions of the Colonial Governors upon the Banking Regulations was probably not great. Experience at home was sufficiently comprehensive for the preparation of at least a skeleton framework of rules and restrictions. The earliest authoritative mention

[1] Letter from the Governor of Jamaica to the Earl of Aberdeen of 8/2/1835, P.R.O., T.1, 3479.

of the provisions actually adopted appears, in fact, in a Minute of the Board of Trade, as early as 16/7/1830:

"At the Council Chamber Whitehall 16/7/1830. By the Right Hon. The Lords of the Committee of Council appointed for the consideration of all matters relating to Trade and Foreign Plantations.

Present: Rt. Hon. J. C. Herries, Rt. Hon. J. P. Courtenay.

The Committee of the Privy Council for Trade having in consequence of certain papers transmitted to the President and the Chancellor of the Exchequer, had under consideration the expediency of encouraging the establishment of a Chartered Bank at the Mauritius are of opinion:

That the establishment of Banking Companies upon the secure foundation of an ample capital subscribed and an adequate preparation of such capital actually paid up and governed by certain regulations and restrictions as to the conduct of their business, would tend to promote the commerce and general prosperity of the Mauritius or any other of H.M. colonies in which individual capitalists might be willing to undertake such establishments. And that it would therefore be advisable to give encouragement for such undertakings by the grant of a Charter, under certain conditions of which the following should be the principal:—

1st.—That the sum to which the personal responsibilities of the respective shareholders may be limited should not be less than twice the amount of shares held by each.

2nd.—That such Bank should make up and publish for the information of the Proprietors, general half-yearly accounts showing the whole amount of its Debts and Assets at the close of each half year, showing also the amount of its notes, payable on demand, which had been in circulation in each week of such half year, together with the amount of the Specie and other assets immediately available in each such week for the Discharge of such notes. That copies of such half-yearly accounts should be laid before the Government of the colony.

3rd.—That such Bank should be at all times liable to furnish to the Governor of the Colony on his Requisition similar accounts.

4th.—That the Funds of the Bank should not be employed in loans or advances upon land or other property not readily convertible into money nor in the purchase of any such property but confined to what are understood to be legitimate operations of Banking, viz: advances upon commercial paper or Government securities, and general dealings in moneys and Bills of Exchange.

Ordered that a copy of the above Minute be transmitted to the Rt. Hon. H. Goulburn" (then Chancellor of the Exchequer).

The mention in this minute of the Chartered Bank at the Mauritius at once suggests the origin of the Regulations. The most recent experience which the home Government could draw upon in this matter was that gained in the Charter negotiations of the Canadian banks,[1] but similar important experiments in chartering colonial banks had been made at Mauritius, and the influence of these latter events has never been adequately recognized. They must have afforded considerable guidance to the home authorities, particularly as the negotiations for a Charter for the Bank of Mauritius took two years to complete—1828 to 1830. A bank was formed soon after the capture of the Island, but was liquidated in 1827 owing to the effects of several hurricanes on the commercial prosperity of the colony. A new joint-stock bank was soon afterwards projected, and the Governor was petitioned for a Charter of Incorporation in 1828. The subscribers promised to set up a special Reserve of two-fifths of the outstanding notes and to limit dividends to 12 per cent. per annum, the excess, if any, to be carried automatically to Reserve. But the Governor was not impressed by this proposal. "I will not disguise from you that the objections to a society composed of shareholders under the title of what is denominated by the French law a 'Société Anonyme,' appear insurmountable. Companies of this description have at various times produced melancholy scenes of national distress and individual misery."[2] Huskisson, when at the Colonial Office, was definitely against it, but Sir George Murray reversed this policy in 1830 because

"it seems more desirable that pecuniary facilities should be afforded by a Bank provided always proper security be given for the notes which it may issue, than that in times of scarcity or distress the inhabitants should be thrown upon the mercy of individual Capitalists, or that the Government should be called upon to advance funds to avert the evils inseparable from the destruction of public credit."[3]

[1] *The Canadian Banking System*, by R. M. Breckenridge, gives an admirable summary of this.

[2] Letter to the subscribers, 13/2/1837, P.R.O., T.1, 3480.

[3] P.R.O., T.1, 3480. Letter of Colonial Office to Treasury, 25/1/1830.

In short, the promoters[1] obtained their charter, not, however, from the Crown direct, but by a special arrangement from the Governor of Mauritius. The Bank was incorporated with a nominal capital of 500,000 dollars (about £100,000), 200,000 to be subscribed in London and 300,000 in the colony, and the Governor was by Royal Warrant of 10/6/1831 instructed to issue the Charter under the Colonial Seal. Reid, Irving & Co. subscribed for $85,000 of the London capital and $50,000 was taken up by Barclay Bros. & Co.[2] The Charter, which was valid for twenty years and contained the "double liability" clause, provided that the whole capital must be subscribed and three-fifths paid up, before the commencement of business. Separate share registers were to be kept in London and at Port Louis, and three Directors were to be appointed by the London shareholders and six from Mauritius. The Bank was to prepare a monthly account of Assets and Liabilities, furnish a monthly Statement of Notes Outstanding to the Governor and a half-yearly Balance Sheet to the shareholders. It was empowered "to carry on the business of bankers by receiving deposits, dealing in Bullion Money and Bills of Exchange and lending Moneys on Deposit and in such other lawful ways and means as are usually practised among Bankers"—not to lend "on Land, Houses or Tenements or Ships, or deal in Goods, Wares or Merchandise," but "the said Company may take and accept Land, Houses or Tenements, Ships or other Property of whatsoever nature and condition as collateral security." No dividend was to be paid out of capital and no smaller notes than $10 (£2) issued. These were the principles, then, on which the Board of Trade Minute was based, and the Chartered Bank of Mauritius is, therefore, of some historical interest as being one of the first of its kind.

[1] Reid, Irving & Co., the famous East India merchants, as shareholders. This firm was an important London correspondent of many colonial banks, and the senior partner, Sir John Rae Reid, was a Director of the Bank of England. The firm failed in 1847.

[2] *Réflexions sur la Mesure qui autorise la Création d'une Nouvelle Banque*, by M. Epinay, President of the Bank of Mauritius, Port Louis, 1838; and "Banque de Maurice" in *Mauritius Government Gazette*, 19/11/1831, give some facts in connection with this bank.

Whatever events may have had a predominant influence in shaping the skeleton regulations of 1830, subsequent experience certainly helped to complete them. From 1830 onwards until 1840, when they were finally codified and circularized to the Governors of the several colonies in the circular letter from the Colonial Office of 4/5/1840, they were subjected to a constant stream of criticism from both home and colonial sources, and a much larger edifice was finally constructed jointly by the Treasury and the Board of Trade upon the apparently insignificant structure of 1830. In 1833, for instance, when the Acts of the Bank of Upper Canada and the Commercial Bank of the Midland District were under consideration at the Treasury, the Board of Trade wrote urging the rigid application of the regulations and the addition of some others.

"The adoption of these regulations appears to their Lordships indispensable, but beyond these conditions there are several others which they are of opinion ought to be insisted on with a view to the security of the Public both as regards the certainty of convertibility of the Paper issued into Specie on demand as well as the prevention of a series of fluctuations in the amount and value of the paper money which are attended with consequences yet more disastrous to the Community. . . .

1st.—A provision for the forfeiture of the Charter of Incorporation on any suspension of Cash Payments which may continue for the space of 60 days.

2nd.—For the conversion into Specie, on demand, of paper issued by the Branch Banks at the place of issue, as well as at the principal establishments of the Bank.

3rd.—For the payment of one half at least of the subscribed capital prior to the Bank being opened for business and of the whole within a period not exceeding 12 months from the date of such opening.

4th.—For the restriction of the amount of paper discounted on which the names of Directors or Officers of the Bank appear as Drawers, Acceptors or Indorsers to an amount not exceeding one-third part of the whole discounts of the Bank.

5th.—For prohibiting the Bank in its corporate capacity from purchasing or holding its own Stock.

6th.—For extending the provisions contained in the 2nd Article of the Minute of the Privy Council for Trade referred to above and rendering imperative on the Banks to publish half yearly in some public newspaper the state of their affairs as therein specified."

In recommending the adoption of these provisions, the Committee

"beg to state that even these provisions do not go as far as what experience has shown in the neighbouring country, the United States, to be advisable. There, especially in the State of New York, where lamentable experience of the mischiefs arising from a bad system of paper issue has shown the necessity of restriction, several yet more stringent provisions have been adopted. Still their Lordships consider that those which they have suggested will be found to be sufficiently binding to prevent the mischievous consequences which must in their opinion inevitably result from such a system as that proposed to be followed in the Acts submitted to them. . . ." [1]

Again, when the Charter of the Bank of Australasia was under consideration, the Regulations were further amplified in detail and the final draft Charter again represents mostly the work of the Board of Trade. Lastly, just before 1840, a final opportunity for revision was afforded when the Colonial Office decided upon the advisability of circulating the Regulations to all the Colonial Governors.

"In order" [runs the letter to the Treasury] "to prevent further misconception of the views entertained by the Lords Commissioners of the Treasury and the Lords of the Committee of the Privy Council for Trade in regard to the regulations which should be observed in the Establishment of Banks in the Colonies, I am to request that you will move the Lords of the Treasury in concert with the Lords of Trade, to draw up an abstract of such regulations as they consider indispensable, that they may be transmitted to the Colonial Possessions of the Crown, for the information and guidance of the Governors and Legislative Bodies in these Colonies." [2]

The Treasury, therefore, made an abstract of the Regulations and the Board of Trade intimated readiness to concur with the Treasury in enforcing their observance.

"The only addition which their Lordships would suggest to these regulations is a clause to the effect, that in all transfers of shares during the period of 6 months from the date of the Charter, the responsibility of each shareholder should continue till a certain time, such as 6 months after his share is transferred.

[1] Letter from Board of Trade to Treasury, 9/5/1833, P.R.O., T.1, 3476.
[2] Colonial Office to Treasury, 7/1/1839, P.R.O., T.1, 3473.

This would, in the opinion of the Board, impose some check on the establishment of Companies merely for the purpose of trafficking in shares or what are usually called Bubble Companies."

The Board also suggested simplification of the charters.

"The details of management, which are often very complicated, ought so far as their Lordships can judge to be left to the parties most interested, and the Incorporation of them in Charters and Acts of Parliament has not only made these documents almost unintelligible but in many cases has defeated its object and been conducive of great inconvenience to many companies to the extent indeed of threatening their dissolution." [1]

This led to the practice of executing separate and subsidiary Deeds of Settlement and certainly suggests that the Board did not view with enthusiasm any further extension of its own responsibilities under increasingly complicated Bank Charters.

The Circular, with the following Regulations enclosed, was finally sent out on the 4th April, 1840:

Regulations and Conditions for the Observance of which Provision should be made in Charters or Legislative Enactments relating to the Incorporation of Banking Companies in the Colonies.

1. The amount of Capital of the Company to be fixed and the whole of such fixed amount to be subscribed for within a limited period not exceeding eighteen months from the date of Charter or Act of Incorporation.

2. The Bank not to commence business until the whole of the capital is subscribed and a moiety at least of the subscription paid up.

3. The whole amount of the capital to be paid up within a given time from the date of the Charter or Act of Incorporation, such period unless under peculiar circumstances, not to exceed two years.

4. The debts and engagements of the Company on Promissory Notes, or otherwise, not to exceed at any time thrice the amount of the paid up capital with the addition of the amount of such deposits as may be made with the Company's Establishments by Individuals in Specie or Government paper.

5. All promissory notes of the Company whether issued from the principal Establishment or Branch Banks, are to bear date

[1] Letter of Board of Trade to Treasury, 3/3/1840, P.R.O., T.1, 3469.

at the place of issue and to be payable on demand in Specie at the place of date.

6. No Promissory or other Notes to be issued for sums under £1 sterling (or in the N. American Colonies £1 Halifax currency) or the equivalent thereof in any other local currency, and not for the fractional parts of that amount.

7. Suspension of specie payments on demand at any of the Company's Establishments for a given number of days (not in any case exceeding 60) within any one year, either consecutively or at intervals, to forfeit the Charter.

8. In the event of the Assets of the Company being insufficient to meet its engagements, the shareholders are to be responsible to the extent of twice the amount of their subscribed shares (that is, for the amount subscribed and paid up, and for an additional amount equal thereto).

9. The Company shall not hold shares in its own Stock, nor make advances on the security of those shares.

10. The discounts or the advances by the Company on Securities bearing the name of any Director or Officer thereof as Drawer, Acceptor, or Endorser shall not at any time exceed one-third of the total advances and Discounts of the Bank.

11. The Company shall not advance money on the security of lands or houses, or ships, or any pledge of merchandise, nor hold lands or houses, except for the transaction of its business, nor own ships, or be engaged in trade, except as dealers in bullion, or bills of exchange; but shall confine its transactions to discounting Commercial Paper and Negotiable Securities, and other legitimate Banking Business.

12. The Dividends to Shareholders are to be made out of profit only, and not out of capital of the Company.

13. The Company to make up and publish periodical statements of its Assets and Liabilities (half-yearly or yearly) showing under the heads specified in the annexed Form the average of the amount of its Notes in Circulation and other liabilities at the termination of each week or month during the period to which the statement refers, and the average amount of Specie or other assets that were available to meet the same. Copies of these statements are to be submitted to the Governor of the Colony within which the Company may be established, and the Company to be prepared, if called upon, to verify such statements, by the production as confidential documents of the weekly or monthly balance sheets from which the same are compiled, and also to be prepared, upon requisition from the Lords Commissioners of Her Majesty's Treasury to furnish in like manner such further information respecting the state or proceedings of its Banking Establishments as their Lordships may see fit to call for.

14. No bye-law of the Company shall be repugnant to the

conditions of the Charter or Act of Incorporation, or to the law of any Colony in which the Company's Establishments may be placed.

15. The Charter or Act of Incorporation may provide for an addition to the Capital of the Company within specified limits with the sanction of the Lords Commissioners of H.M. Treasury; such additional Capital, and the shares and subscriptions that may constitute the same being subject in every other respect from and after the date of the above-mentioned sanction to conditions and regulations similar to those applying to the original Charter.

16. In all cases in which shares in the Company's Stock are transferred, between the period of the grant of the Charter or Act of Incorporation and the actual commencement of business by the Bank, the responsibility of the original holder of the transferred share shall continue for 6 months after the date of the transfer.

17. As the insertion in Charters or Acts of Incorporation of provisions relating to the detailed management of the business of the Corporation, has in several instances been found to render the documents complicated and unintelligible and has been productive of great inconvenience, it is desirable that such insertion should be avoided, and that the provisions of such Charters or Acts should be confined, as far as practicable, to the special powers and privileges to be conferred on the Company, and to such general regulations relating to the nomination and powers of the Directors, the institution of bye-laws, or other proceedings of the Company as may be necessary with a view to the public convenience and security.

### Form of Return referred to in Regulation 13.

Return of the Average Amount of Liabilities and Assets of the Bank of —— during the Period from 1st January —— to 30th June ——, viz:

| | | | |
|---|---|---|---|
| Promissory Notes in Circulation not bearing interest | £—— | Coin and Bullion . . . | £—— |
| Bills of Exchange not bearing interest . . . . | £—— | Landed or other Property of the Corporation . . | £—— |
| Bills and Notes in Circulation bearing interest . | £—— | Government Securities . | £—— |
| Balances due to other Banks . . . . . . . | £—— | Promissory Notes or Bills of other Banks . . . | £—— |
| Cash Deposits not bearing interest . . . . . | £—— | Balances due from other Banks . . . . . . | £—— |
| Cash Deposits bearing interest . . . . . . | £—— | Notes and Bills discounted and other Debts due to the Corporation not included under the above heads . . . . . . | £—— |
| Total Average Liabilities | £—— | Total Average Assets | £—— |

A due appraisement of these arrangements must be qualified by the consideration that the Regulations in practice were not always strictly adhered to, especially in the case of the Colonial Banks proper. From the time of their formulation, it is true that many Bank Acts in the Colonies were disallowed and a number of schemes put forward at home were either refused charter privileges altogether or drastically amended. The process of drastic amendment started with the "Royal Bank of Australasia and South Africa" in 1833, and continued with the Colonial Bank of 1836, the Bank of British Guiana, the Cape of Good Hope Bank and the Bank of Jamaica of 1837, the Mauritius Commercial Bank of 1838, the Union Bank of Jamaica of 1839, and the Bank of Ceylon, the Bathurst Bank, the St. Vincent Commercial Bank and the West India Bank of 1840.[1] Thus, in the early years, the Regulations were quite strictly enforced, but on the other hand, where it was plain that the spirit of these rules was being respected if not the letter, the Government of the day usually recommended the Royal assent without more ado. In addition, the elasticity of the Regulations was also proved when the economic conditions of the environment of a Colony had to be taken into account. The exceptional distance of the Australasian Colonies from bullion supplies or the political difficulties in Canada would, for example, need special consideration. These points are well expressed by Lord Althorp, Chancellor of the Exchequer and probable part author of the Regulations. "The case" (confirmation of two Canadian Bank Acts) "is one of some difficulty," he writes,[2]

"because the mode and the only mode by which we can induce these banks to consent to such conditions as we may think neces-

[1] Breckenridge gives many instances of Canadian Acts being disallowed for non-compliance with the Regulations. See *Canadian Banking System*, Chapter iii.

[2] Lord Althorp's letter to the Hon'ble Jas. Steuart at the Treasury, 24/10/1833, P.R.O., T.1, 3476. This letter, incidentally, throws some light upon the usually accepted view of the amendment of these two Canadian Bank Acts, namely, that the Home Government yielded to pressure from the opponents of the "Family Compact" in London. See Prof. Shortt's "History of Canadian Currency" in *Journal of C.B.A.*, July, 1901.

sary to the security of the Public is by threatening to disallow entirely the Acts which have passed the Colonial Legislature and which in fact have been some time in operation. This would be a course which no man of sane mind would recommend and therefore the effect of our threat must be very much weakened.

Another difficulty arises from the different circumstances attending the two Acts : one applies to an old establishment and the other to one now for the first time created. The recommendations from the Board of Trade must be taken as their view of the conditions upon which a Charter should be granted when the circumstances of the case were such that no impediment existed which would interfere with the free and full exercise of the discretion of the Government and therefore in applying them to the present case we must modify them so as to suit the peculiarities to which we are bound to attend. I will now apply myself to these recommendations."

(The tone of this letter, so far, suggests unmistakably that Lord Althorp now saw the Regulations for the first time, and therefore had nothing to do with their *original* composition.)

" 1st.—The forfeiture of the Charter on a suspension of cash payments for sixty days. I think this a good and useful provision and I would apply it to the new Bank, but as the old Bank of Upper Canada is already bound to stop all discounts and to discontinue all business whatever on such a suspension, I should be inclined to admit of this as a sufficient compliance with the first recommendation. . . . I apprehend that the effect of the forfeiture of the Charter would be to render the whole of the stockholders liable severally and jointly to the debts of the Company and therefore would give in all human probability complete security to the holders of the notes and other creditors of the Bank. I would therefore in the case of the Midland Bank, a new establishment, insist on this condition."

The following criticism is significant :

" I do not think that the Regulation . . . by which the Bank is prevented from issuing more than three times the amount of its paid-up capital does give adequate security to the public. Because in addition to the circulating paper receipts must be provided for Deposits and for all other debts and engagements of the Bank. . . . I should hope," he concludes, " that there will be no great difficulty in recommending the Legislatures to pass Acts adding the conditions to the Acts they have already passed but most certainly the greatest care must be taken that

while we are endeavouring to give solidity to these Banking Establishments and therefore giving security to the trade and commerce of the Colony we do not take any step which may injure the credit of establishments on which the prosperity of all the traders must greatly depend. In whatever instructions therefore are given to the Governor he must be allowed to exercise his discretion as to how far he will literally execute them."

The Regulations, in other words, never had the force of law. They represented a collection of the best available safeguards yet invented against banking disasters, and if they appear at present grossly inadequate in some respects and excessively restrictive in others, it should be remembered that they represented the ideals of banking legislation for most of the Empire for nearly half a century, and that even now, traces of their influence are discernible in the banking laws of at least one great Dominion.

To come to specific criticism, the first three clauses and No. 16 represent in part ordinary reasonable precautions which have direct descendants in the Companies Acts, and in part a lingering remnant of the agitation against "Bubble" Companies which had raged since the Act of 1719. In particular, a great discrepancy between nominal and paid-up capital is generally accounted an undesirable feature in joint-stock company finance, and it was this canon which was so flagrantly disregarded by some of the earlier colonial banks. In Australia, for instance, in 1831, the Bank of New South Wales had a nominal capital of 1,500 £100 shares, £24,571 6*s.* 8*d.* being paid up; and the Bank of Australia had a nominal capital of 1,200 £100 shares, £35,000 being paid up. The third rule does not seem so onerous read in conjunction with No. 15—this latter clause, incidentally, being destined to cause considerable trouble later on, as the Treasury shouldered a very heavy responsibility under it.

The arbitrary "rule of three" limitation on the issue of notes reflects the state of opinion on the currency question at that time, but the restriction applied also to other engagements of the Bank and thus might have been of more use had a clear distinction been drawn between the two sorts

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of liability. A note-holder has in most cases little choice about accepting notes and is therefore entitled to more protection than other creditors; notes would form the greater proportion, at first, of the total debt to the public, because deposits were meagre and hard to get, banks of issue being much more profitable than banks of deposit in consequence; but the proportion would naturally alter as the area developed.

Regulations Nos. 5, 6 and 11, however desirable theoretically, suffered modification in practice to suit local conditions. To Rules 5 and 6, for example, the Canadian banks objected strongly,[1] and had these conditions been insisted upon, the Canadian banking system could not possibly have followed its well-known lines of development. No. 11, again, involved the banks in Canada, India and Australia in numerous evasions, such as discounting so-called commercial paper and accepting land as collateral security. The Bank of Australasia, in the early days, objected to this (in vain) and hoped

> "that it may be so modified as to enable the company to receive and hold title-deeds of land or buildings or other real securities as *collateral securities upon advances of money upon Bills*, under stipulations that such deeds, etc., shall be held but as *collateral securities only*, and that they shall in no case be purchased by the company." [2]

In new countries like Canada and Australia, there would obviously not be much else to offer, and naturally this provision in time came to be disregarded. During the boom of 1834–8 in Australia, for instance, all the banks discounted notes arising out of land transactions, including those whose charters forbade this. Further, all the Chartered banks certainly advanced on land subsequently, and this sometimes called forth unfavourable comment. "It would not be sound to argue," reported one Australian Commission, "that because the Chartered Banks have ignored this provision of their charters with respect to lending

[1] See Breckenridge, *The Canadian Banking System*, Chapter iii.
[2] Letter from Committee Rooms, Henrietta Street, to Treasury, 9/1/1834, P.R.O., T.1, 3469.

money on land, such a provision should be abrogated."[1]

The seventh regulation had also to be suspended in some cases. The Bank of Australasia objected to the period of sixty days as being too short.

> "We beg leave to represent to your Lordships that the term specified is allowed to the *Canada Bank* and to state that in consideration of the greater distance of the colonies to be comprised in the Charter prayed for, and the unavoidable casualties which may possibly arise therefrom, we are most desirous that the period in question should be extended to a number of days proportionate with the relative distance of the colonies from the nearest sources of the supply of bullion."[2]

This objection was allowed and a period of 130 days substituted.

The eighth rule caused some trouble at first, again more especially in Canada, where the Banks maintained that their shares would be unsaleable except to persons with small means, and this would defeat the object of the rule. The objection was not sustained and the clause is now enshrined as the fundamental "double liability" principle of the Canadian Bank Act, though the considerations influencing its retention there are hardly the same now. Nine, 10 and 12 could not justifiably be opposed, and these rules were of considerable use at a time when there was a danger of local colonial banks being founded and operated solely for the benefit of the directors. From this danger, at least, the English banks were almost all exempt.

As to No. 13, the statements demanded meant little more than an additional inconvenience to a reasonably well-regulated concern. They were not frequent enough to act as tell-tales and there was no independent audit, so that the Government might well have insisted on much more information than this, especially in view of its indefinite moral responsibility for the bona fides of the Chartered Banks. Clause 14 finally was of obvious importance in view of the promotion of several colonies to the self-governing

[1] 1887 Commission on Banking Laws in Victoria, P.R.O., C.O. 311/157, p. 23.

[2] Letter from Committee Rooms, Henrietta Street, to Treasury, 9/1/1834, P.R.O., T.1, 3469.

stage in the next few years. A colony so favoured would soon appreciate the anomaly of having in its midst powerful banking companies, directed possibly from England and responsible to the home Government.

A fact which is worth bearing in mind in criticizing these Regulations (and a fact which constantly acted as a stimulus to the Government) is that valuable lessons could be learnt from the state of the English banking system at the time, and from the innumerable discussions which were proceeding right up to the time of Peel's legislation of 1844-5. The report of the Joint-Stock Banking Committee of 1836 is a case in point, and the Lords of the Treasury could, with some justification, assume a self-laudatory attitude at the fact that the colonial banking arrangements were so far ahead of those in the home country and so near to the ideal apparently in the minds of this Committee. Some alarm appears to have been felt at first that the findings of the Committee would cause a drastic recasting of the familiar Regulations, and a Minute was in fact proposed with this object, but was rejected by Lord Althorp.

> "The Minute, as it at present stands, looks too much as if it had been loose and were pulled up by the appointment of a commission and the present state of joint-stock companies. This is not the true state of the case. Besides I do not think it advisable to do anything which may have the appearance of the Treasury taking the alarm. I should prefer . . . to state that my Lords are more and more impressed as to the wisdom and expediency of the arrangements and the necessity of strictly adhering to the regulations laid down by them. . . ."

It is regrettable that there is no trace of the proposed Minute. The opinion actually recorded [1] merely states that the Colonial Bank Regulations "are calculated to provide for safeguards, the omission of which in the formation of banking companies in this country has been particularly noticed in the reports submitted to the House of Commons by the Committee of the last session on Joint-Stock Banks." The indictment of the Select Committee was certainly less formidable than it looked, but it is clear

[1] Treas. Minute, 25/10/1836, P.R.O., T.1, 3471. Lord Althorp's Memorandum (quoted above) is attached to this.

that the Treasury and the Board of Trade had some cause for self-congratulation on their exemplary supervision of the chartered colonial banks.

"Subject to the local restrictions imposed for the protection of the privilege of the Bank of England" [reported the Committee indignantly], "it is open to any number of persons to form a company for Joint-Stock Banking whether for the purpose of deposit or of issue or of both.

1. The law imposes on the Joint-Stock Banks no preliminary obligation beyond the payment of a licence duty and the registration of the names of shareholders at the Stamp Office.

2. The law does not require that the Deed of Settlement shall be considered or revised by any competent authority whatever and no precaution is taken to enforce the insertion in such Deeds of clauses the most obvious and necessary.

3. The law does not impose any restrictions upon the amount of nominal capital. This will be found to vary from £5,000,000 to £100,000 and in one instance an unlimited power is reserved of issuing shares to any extent.

4. The law does not impose any obligation that the whole or any certain amount of shares shall be subscribed for before banking operations shall commence. In many instances banks commence their business before one half of the shares are subscribed for and 10,000, 20,000 and 30,000 shares are reserved to be issued at the discretion of the directors.

5. The law does not enforce any rule with respect to the nominal amount of shares. These will be found to vary from £1,000 to £5. The effects of this variation are strongly stated in the evidence.

6. The law does not enforce any rule with respect to the amount of capital paid up before the commencement of business. This will be found to vary from £105 to £5.

7. The law does not provide for any publication of the liabilities and assets of these banks nor does it enforce the communication of any balance sheet to the proprietors at large.

8. The law does not impose any restrictions by which care shall be taken that dividends are paid out of banking profits only and that bad or doubtful debts are first written off.

9. The law does not prohibit purchases, sales and speculative traffic on the part of these companies in their own stock nor advances to be made on the credit of their own shares.

10. The law does not provide that the Guarantee Fund shall be kept apart and invested in Government or other securities.

11. The law does not limit the number of branches or the distance of such branches from the central bank.

12. The law is not sufficiently stringent to ensure to the public that the names registered in the Stamp Office are the names of persons bona-fide proprietors who have signed the Deed of Settlement and who are responsible to the public.

13. The provisions of the law appear inadequate or at least are disregarded so far as they impose upon banks the obligation of making their notes payable at the place of issue."

This is a truly alarming list of omissions, but its importance from the present point of view lies in the striking manner in which the Colonial Bank Regulations answered almost completely every criticism of this Committee on the subject of the English banking system. There is thus some ground for believing that the principles which had brought the chartered colonial banks to such a pitch of apparent perfection, now also formed the basis for English banking legislation. The Act 7 & 8 Vict., c. 113, in fact forbade the establishment of any bank in England of more than six persons, except by Royal Charter, application to be made through the Board of Trade and a proper Deed of Settlement drawn up. Liability was unlimited and half the capital had to be paid up before business was started. Several Banks took advantage of this, e.g., the Preston Banking Company of 1845, the Banbury Banking Company and the Royal British Bank (!) of 1849, the Bucks and Oxford Union Bank in 1853, the City Bank of 1855 and the Western Bank of London of 1856; their charters bear a strong resemblance to those of the Anglo-Colonial banks.

But this march hand-in-hand of English and Colonial banking legislation brought about changes in the Colonial Regulations also. Peel's new banking principles naturally left their mark on the system. The Treasury Minute of 14/11/1845 records that:

"On adverting to the provision relating to the issue of bank-notes in the United Kingdom contained in the Acts of 8 and 9 Vict., c. 32 and of 8 and 9 Vict., c. 37 and c. 38 and likewise to the inconvenience that has resulted from too extensive issues of notes by the banking companies at the Mauritius, my Lords deem it advisable that the fourth clause of the Regulations relating to Colonial Banks shall be modified in such manner as to restrict the issue of Promissory Notes by any company that may

henceforward be incorporated to the amount only of the paid up capital of that company."

This led to the incorporation of a new restrictive regulation—" The total amount of the Promissory Notes payable on demand issued and in circulation not at any time to exceed the amount of the capital stock of the company actually paid up." The Board of Trade signified concurrence.[1]

A few detail alterations were made in the Regulations before the second edition, embodying Peel's improvements, was circulated. In order to preserve for the benefit of creditors, full recourse against a Chartered Bank after its suspension, its existence as a corporation was to be continued, the limited liability of the members to remain unaffected. Doubts as to " whether the Crown can by Charter create or limit the individual responsibility of members of a Corporation after the dissolution of such Corporation " had already been expressed tentatively by the Law Officers of the Crown in reference to the Bank of Australasia's Charter and further doubts about the efficacy of the old arrangements were raised by Lord Stanley, Colonial Secretary in 1845. Lord Stanley objected to the confirmation of the Charlotte County Bank Act being made contingent upon an amendment about the redemption of notes in specie " on pain of forfeiture of corporate privileges " . . . " the real effect of which his Lordship submits that it is not very easy to understand." [2] The previous Regulation (No. 7) was therefore modified so as to provide for the forfeiture of the privileges of continuing banking operations and the issue of notes only, leaving the liability of the Corporation to its creditors and its powers for prosecuting claims against its debtors unaffected.

The new edition of the Regulations was finally prepared in 1846 and circularized to the Colonial Governors by letter dated 30/5/1846. This time it was clearly stated that the rules were not to be considered inflexible and in all cases to be implicitly adhered to but rather as principles for the

[1] Committee Minutes, 18/11/1845.
[2] Treas. Minute, 18/3/1845, P.R.O., T.1, 3476.

general guidance and information of the Colonial Governors. Any Bills which did not satisfy these principles were to be "reserved."

Thus, both the colonial joint-stock banks proper, and the chartered colonial banks operated from London, were subjected to Government supervision from the time of their foundation. Their flotation and organization, the kind of business they should do, their relations with their shareholders and with the colonial governments, were all supervised, more or less closely, by the home Government, with the help of a set of rules applied universally throughout the Empire. The situation was unique and contemporary foreign experience offers few profitable comparisons—with perhaps one exception.

The foundations of the French colonial banking system were laid three years after the second edition of the Regulations had been circulated to the English Colonies. According to the law of 1849, one-eighth of the indemnity allotted to planters as slave compensation money was retained, and had to be utilized for the foundation of a colonial bank. A contrast with the local colonial banks in the British West Indies, which sprang up *spontaneously* on the basis of slave compensation money, is at once apparent. The shares of the French colonial banks were not subscribed for publicly [1] and they therefore came to be held by the planters as part of the indemnity. The banks (of Martinique, Guadaloupe, Réunion and Guiana) had a monopoly of note issue in the colony where their Head-office was situated, but had to maintain a cash reserve of one-third against it, the notes being convertible on demand and receivable as legal money in the colony of issue by individuals and public authorities. The excess of liabilities over cash held was not to exceed three times paid-up capital and reserves—the famous rule of three had apparently international sanctity—capital and reserves being held in *Rentes*.

The administration of these banks was very complicated. In the colony, each bank director was nominated and could

[1] Kaufmann (*La Banque en France*) speaks of this failing because of absolute public indifference.

be suspended by the Governor, who was responsible for seeing that the decrees incorporating the bank were duly respected. The Colonial Treasurer was *ex officio* a member of the bank Board. One of the two "Censors" was nominated by the Minister of Colonies, the duty of the Censors being to certify the elaborate monthly accounts published by the bank and to make monthly reports to the Governor and the Minister in Paris. A monthly statement of decisions taken by the Board of Directors had also to be furnished the local Government, which, with the Minister of Colonies, was entitled to ask for any statement from the Bank "necessary for the exercise of the control of the State."

In Paris, there was the agent of all the colonial banks, the *Agence Central des Banques Coloniales*—a Government department—and the more important *Commission de Surveillance des Banques Coloniales* at the Ministry of Colonies. Of the nine members of this Commission, one was a Councillor of State, four (including two shareholders) were nominees of the Minister of Colonies, two were nominated by the Minister of Finance and two elected by the General Council of the Bank of France. The business of the Commission was to supervise generally all the colonial banks and examine the documents relevant to their activities; it reported yearly to the President and was consulted by the Government on questions arising in connection with legislation affecting the banks.

With only these few facts to consider, the contrast between the formal obligations of the Government in France and in England towards the colonial banks, is marked; the contrast between the fulfilment of those obligations in practice is even more noticeable. "Nos banques coloniales sont, plus encore que les *Chartered Banks*, soumises a l'ingérence permanente de l'Etat, qui a présidé à leur formation."[1] In the early years of the Chartered Bank system, when the Government took its responsibilities seriously,

[1] Monplanet, *Les Banques d'Emission dans les Colonies Anglaises*, Paris, 1891, (Colonial Office Library). Monplanet was Inspector-General at the French Ministry of Finance, and this Report is the result of a special mission undertaken to England. The contrasts between the French and English systems at that time are admirably expressed.

there were some points of comparison, but the Chartered Banks could never claim monopoly rights of note issue or Government backing other than the very indefinite kind contemplated by their charters, and in later years when the English Treasury began to disavow even its comparatively few formal responsibilities under the system, the divergence between the English and French arrangements became so marked as to render comparison practically useless.

## CHAPTER III

# EARLY HISTORY OF THE IMPERIAL BANKS

THE first chartered bank operating in the Colonies under direction from London was the Bank of Australasia, at present one of the most successful and most respected overseas banks in London. The promoters of this bank, according to the Report of June, 1835 (the first one), commenced their undertaking in November, 1832, though their charter is dated 31st May, 1835—nearly three years later, the reason for this delay being, of course, that matters of principle were being settled for future occasions as well as for the present. The Memorial of the promoters [1] praying for incorporation by Royal Charter of the "Royal Bank of Australasia and South Africa" explains that great inconvenience has been experienced at the Cape and in Australia from the lack of an approved and uniform means of payment. The projected bank would do much to lessen this evil if it were incorporated under Royal authority in England with limited liability protection for its shareholders, and endowed with note-issue powers, thus "facilitating and rendering more secure the money transactions and remittances of the colonists."

The Bank is therefore to be established, and directed from London. "The management of the Company's affairs shall be under the control of a Court of Directors in London who shall have power to nominate at each bank in the Colonies Local Directors from the resident Proprietors for managing the affairs of each bank." A complete constitution for the Bank was laid down in the Memorial, and the many clauses subsequently disallowed, reveal clearly the application of the Regulations. The Corporation, for

[1] 18/5/1833, P.R.O., T.1, 3469.

instance, was to be empowered to lend money "on pledges of any kind whatsoever" and "to hold, alienate, sell and dispose of land." Further, "the members of the Corporation shall be individually and respectively liable and responsible for the affairs, concerns and engagements of the Banks so to be established as aforesaid to the extent and amount only of the respective individual subscriptions." Both these clauses were disallowed at the start. The Memorial also mentioned that a reserve in bullion of one-third the amount of notes in circulation was to be kept. This figure was possibly founded on the Bank of England ratio of the time, but the Bank of England also held other reserves in the form of securities which were neither obtainable nor saleable in the Colonies, so that the figure was therefore quite inapplicable and, in any case, Lord Althorp was not impressed by this apparent safeguard.

"I think that the calling upon the Bank to keep any given quantity of bullion in proportion to its notes an improper provision. It is one which may cramp its operations but most certainly gives no security, because if the Deposits are not included in the proportion, the provision is quite nugatory . . . I think therefore this should be omitted." [1]

The inclusion of such a provision in the Regulations after 1846 (cf. Chalmers' *Colonial Currency*, p. 34) represents, therefore, quite a retrogression in policy.

The submission of the Memorial was followed by a letter from Mr. J. Potter MacQueen, one of the promoters, to Spring-Rice at the Treasury. This throws an interesting light upon the origins of the Bank.[2]

"I really hope," he writes, "you will lend us the aid of your powerful influence to prevent further delay. . . . One of our principal officers is now at Edinburgh looking to the testimonials of some very superior practical men from the banking establishments there. I much wish to take out Mr. Carlitt of the Provincial Bank as Secretary or Cashier. To you who are so well acquainted with the minutiæ of money matters I will not detail

[1] Letter to Spring-Rice at the Treasury, 16/10/1833, P.R.O., T.1, 3469.

[2] Dated 7/9/1833, P.R.O., T.1, 3469. MacQueen apparently deserted the Bank on his arrival in Australia, as his name appears as a director of the Commercial Banking Company of Sydney in 1834.

the advantages resulting to all parties concerned. To the Government I will pledge myself to make it a saving of £20,000 per ann.; to the Proprietors it will pay a clear 10 per cent., and to the colonists it will prove of immense value. My last letters prove that nothing but the admirable management of Genl. Bourke (who is universally beloved) has prevented great complaints—a few rich individuals are lending their money at from 15 to 25 per cent.—a people in a state of distress will never be loyal or satisfied. In that country like any other when anything like freedom of the Press is allowed, there will always be demagogues who will make a trade of fomenting popular excitement and discontent and with this difficulty of carrying on business for want of medium or capital, the work will be easy—but countenance an establishment which will give fair and judicious accommodation at 6 or 8 per cent. and you will encourage agriculture, commerce and enterprise and give people other occupation than harping on imaginary political wrongs. I am perfectly convinced also that unless *we* be assisted, other parties will be in the field whose risk (being without a Charter) being large, will demand corresponding gains—but who will be connected with the interests of *America* and not of Great Britain. . . ."

The Prospectus is dated March 1834, and relates that

"the above-named company has been formed for the purpose of establishing banks of issue and deposit in New South Wales, Van Diemen's Land and other settlements in Australasia. The Charter (the terms of which have been fully agreed upon between H.M. Government and the Directors) is now in course of preparation; it constitutes the company a body corporate and invests it with the powers and privileges usually granted to corporations, limits the responsibility of the shareholders to double the amount of their respective shares," etc., etc. . . . "The Directors have been long engaged in maturing this undertaking and they are fully satisfied that in no part of the world can capital be employed more advantageously and securely than in carrying on the business of banking upon sound principles in the colonies of Australasia."

The early dividends paid by the Bank of New South Wales show that the optimism of the Directors of the new English bank on this point was not altogether unfounded—for the first five years of its existence, even, the Bank of New South Wales paid an average dividend of 15 per cent.

The directors proceeded to allot 4,500 shares to English subscribers and 500 to the Colonies, so as to ensure a colonial

interest which would help them at the commencement of their business in Australia; but in August the Treasury wrote informing the Bank that incorporation under 4 & 5 Wm. IV, c. 94 would obviate the necessity for a Royal Charter; the directors insisted on and finally obtained a Charter, however, pointing out that it was doubtful whether the Crown could limit liability in the way required under this statute and that £17 on each share was paid up and £6 in course of collection, the subscribers having sent their money on the faith of a Royal Charter, with its special privileges, being granted. The figures suggest that the directors could not have had much difficulty in getting their money—the whole of the £200,000 nominal capital of the Bank was, in fact, collected by the end of 1835, and there must have been some sort of stag market in the shares, since from the date of the Prospectus to March 1835, £101 18*s*. was "Received for Office Fees on the transfer of Shares." [1]

Before the Charter was granted, there arose in 1834 an interesting discussion about the advisability of extending the operations of the Bank to colonies other than the Australasian.

> "In December 1834 the Directors had various communications with a gentleman of the name of Phillipps who was the bearer of a petition to H.M. Government signed by the principal inhabitants of the Eastern Province at the Cape of Good Hope, praying for the establishment of a bank in the said province." [2]

Phillipps also memorialized the Secretary of State on his own initiative and in support of the Bank of Australasia. His Memorial [3] shows that

> "your Memorialist . . . a landed proprietor and one of the Justices of the Peace of the District of Albany . . . was entrusted with a Petition to H.M. Government signed by upwards of five hundred landed proprietors, Merchants and others, praying for the establishment in the Eastern Province of a branch of the Government Discount Bank of Cape Town. . . . On your

[1] Statement of Receipts and Disbursements, quoted in the First Report of the Directors.
[2] First Report of the Bank of Australasia.
[3] P.R.O., T.1, 3477.

Memorialist's arrival in Cape Town he was informed from authority that there was no chance of receiving any assistance from the aforesaid Discount Bank as it was so limited in its resources as to be unable at times to satisfy the demands for discounting the most unexceptionable bills of the merchants of Cape Town. . . . Your Memorialist therefore, on the part of the Colonists whom he represents, begs most respectfully to express his hope that the Shareholders of the 'Bank of Australasia' may be permitted to have the Eastern Province of the Colony of the Cape of Good Hope included in the Charter."

The correspondence shows, however, that the Secretary of State attached no weight to Phillipps' Memorial and preferred to have the opinion of the local Governor in Council before acceding to the measure proposed. At any rate, another petition was presented by the Bank directors themselves in 1835, asking for the inclusion of South Africa and Ceylon in the Charter.

"The Directors were induced to include *Ceylon* in the application from a representation that had been made of the want of banking accommodation in that Colony and from a belief that the Governor of the Colony had himself expressed an opinion favourable to the measure." [1]

The *original* application for the Charter had asked for the inclusion of South Africa in the Bank's sphere of operations and

"although your Lordships in reference to the already existing Government Banks of Deposit and Discount did not *then* think fit to grant the extension of the Charter so prayed for, your Memorialists cannot but conceive that recent occurrences in the Colony show that the interests of the Public Revenue would be promoted by the Establishment of a Bank at the Cape of Good Hope which should present the facilities and security incident to the Principles upon which the 'Bank of Australasia' is founded and which on a small scale would occupy a similar place and perform similar functions in respect to the State and the Public as are discharged by the Bank of England in this country." [2]

The unsatisfactory services of the Government banks in South Africa undoubtedly strengthened the English bank's case, and if the question of the colonial revenue had

[1] First Report of the Directors.
[2] Memorial of the Directors to the Treasury, P.R.O., T.1, 3477.

not been involved, it seems clear that the Bank of Australasia would have commenced operations in South Africa as well, and this bank and its successors would certainly have had considerable influence upon the economic development of the colony.

A Treasury objection that separate banks with " distinct capitals " were required, was easily circumvented and provoked the directors to another Memorial.[1] This refers to the letter of the Secretary to the Board of Treasury

" wherein he states that your Lordships have not deemed it advisable to comply with their request, as it is conceived that the connection of the responsibilities arising out of the transactions of banks in several distant Colonies and the working a common undivided capital among them would be attended with danger and that although there might be no objection to the establishment of banks in different Colonies by the same proprietary and to the general direction of them being vested in the same individuals it would be highly expedient that their transactions should respectively be based and secured upon distinct capitals and responsibility. . . . Deferring to your Lordships' judgment upon this point, they have proceeded without loss of time to consider in what way they can best give effect to your Lordships' views by raising a distinct capital to be employed exclusively in establishing and carrying on a sound and enlarged system of banking at the Cape of Good Hope. . . . Your Memorialists and numerous other capitalists connected with the commercial interests of the above-mentioned settlements have proposed and agreed to subscribe a capital of £125,000—in 5,000 shares of £25 each for the purpose of establishing and carrying on banks in the various settlements in the Southern parts of Africa, provided His Majesty shall for that purpose be graciously pleased by His Royal Charter to constitute and declare them to be a Body Politic and Corporate by the name of 'The Bank of South Africa.' "

But this last project came to nothing for other reasons (which will be considered later) connected with the colonial revenue. The first official objection is interesting, however, because it is the only one which arose in the nineteenth century, to the principle of Empire banks with branches in all parts of the world. From the modern point of view, this attitude of the Government in 1835 is absolutely

[1] P.R.O., T.1, 3469.

indefensible, and the need for " distinct capitals and responsibility " for different colonies remains to be proved ; it seems clear indeed that the more widespread the bank's operations are, the less are the risks from local trade fluctuations.

The directors made several very strenuous efforts to have their banking privileges extended to South Africa, as a potentially profitable area for their operations. In consideration of the grant of this favour and a monopoly of the public business in the Colonies, they offered to put up security to the Government in London to any amount required and to allow 2 per cent. per annum upon all public deposits, but the only effect of this was to bring forth the Treasury objection mentioned above. Consultations between the Treasury and the Board of Trade resulted in the reiteration of this objection to all the representations of the Bank, the Board of Trade being apparently far more convinced of the seriousness of the obstacle than the Treasury : [1]

" The Lords of this Committee have no information before them to induce them to think it desirable to connect together and under one and the same Responsibility the Banking Establishments of Colonies having no natural connection with and being situated some thousand miles distant from each other. As a general principle their Lordships would consider this to be objectionable—such a Plan has an appearance of Adventure and Hazard, at variance with the Solidity and Security which are so desirable in Banking Establishments. No person trusting a Bank at the Cape of Good Hope could have any means of judging of the degree of credit due to an Establishment of such wide and unconnected responsibilities. The different branches would be directed necessarily with an ignorance of the state of the whole mass of their affairs and should any Interruption at any time occur to the perfect credit of any of the Establishments (a danger much increased by such a system) it might most inconveniently disturb, at the same time, the interests of so many Colonies."

The Company might establish " separate " banks wherever it pleased,

" but they should respectively have distinct capitals and be unconnected in responsibility with each other. There would be

[1] Letters of 24/2/1835 and 16/4/1835 from Board of Trade to Treasury P.R.O., T.1, 3469 and T.1, 3477.

no objection to their transacting the business of each other as independent establishments as is the practice of Banks in all parts of Europe, but their Lordships are of opinion after mature consideration that the connected responsibilities of Banks in several Colonies and the working of a common undivided capital among them, would be attended with danger."

Of course, even had the directors of the Bank of Australasia overcome these objections, there still remained the consideration that the competition of a powerful London bank with the feeble Government institutions at the Cape, would cause a diminution in their profits, sufficient seriously to embarrass the revenue of the local Government, which benefited to the extent of about £6,000 per annum from this source. It is true that the Government might have bargained with the English bank for the sale of the Government concerns or an indemnity for the loss of revenue which would have occurred, but such an indemnity would hardly have been given by the Bank unless it had been assured of a monopoly—otherwise an indemnity would have merely cleared the field for all subsequent comers, at no cost to them. Monopoly, however, was not to be thought of, in view of the policy of the Government in London, and so the Cape, as a possible sphere of operations, had to be finally abandoned by the Bank of Australasia. The Treasury rather lamely suggested the insertion in the charter of a clause allowing the Bank to commence business in South Africa with the permission of the Treasury Board and the local Government, but the Board of Trade steadfastly and successfully opposed this, and no such permissive clause appears in the original charter.

Joplin's comments [1] upon this excess of prudence on the part of the Government are interesting. Joplin was apparently very favourably impressed by the Bank of Australasia; he records that "the bills drawn by the branches of the Company upon its London office have been quoted in India, wherever they have appeared, at the same rate as Government bills." For the first six months of its existence, the Bank made a profit at the rate of 15 per cent. per

[1] *Economist*, July 22, 1837.

annum, " and we believe this to be the lowest average rate of banking profit in our Australasian settlements." He says

> " it is difficult to say with confidence or precision upon what principle the objection " [of the Government] " was grounded. Probably there was . . . some vague idea afloat about preventing anything like monopoly. . . . The whim of insisting upon the security of a separate capital for the colony was in every way absurd."

Joplin points out that, with a larger field, the risk diminishes; that if the principle of separate companies had applied to the existing Australian settlements, the unsuccessful Hobart Town branch of the Bank, which was then maintained by the successful Sydney and Launceston branches (to the public benefit) would have been abandoned long ago. Large companies mean less management expenses which, in the case of a bank like the present, with an essential and very expensive system of inspection, must be considerable. Further, the Cape, " lying, as it were, on the roadside between London and Australasia, suggests itself at once as a natural appendage to such a company." This last is certainly a strong point and ought to have carried considerably more weight with the Government than it did. " An application for a Charter," concludes Joplin, " has become a perfect annoyance." The Government should not "interfere" so much.

The Bank's branches in the Colonies were quickly opened —the Sydney office in 1835, Hobart and Launceston in 1836, Melbourne and Bathurst in 1838, and Adelaide and Maitland in 1839; quite early in its history, however, it met with strong opposition from the colonial side, some of which was naturally to be expected but most of which was unjustified. The directors complained publicly in their Report of June 1837 that

> " the Hobart Town establishment has not received that countenance and support of the local government which the Directors had a right to expect from the tenor of the whole of their communications with the home government and the instructions which they had understood to have been forwarded from the colonial department to the governors of the respective colonies."

But the opposition was much more widespread than this; the Sydney banks, for instance, raised a chorus of complaint quite early. The Commercial Banking Company of Sydney wrote anxiously to the Colonial Secretary: [1]

"We do ourselves the honour as Directors of a Public Institution, to bring under your notice the Banks which are already established here, and which enjoy the full confidence of the Public and of the Colonial Government. We are induced to do so, less from a view of questioning the expediency of endowing with privileges unknown in the Colonies a Company formed in London for the purpose of carrying on the very important business of banking in distant settlements, than of showing the competence of the existing banks in New South Wales to answer all the ends contemplated in making the Banks the recipients of any portion of the Public Money . . ."

The Bank of New South Wales, the Bank of Australia, and the Commercial Banking Company, as *local* co-partnerships

"will anxiously endeavour in so far as their acts are concerned, to uphold the public credit, which in less prosperous times than the present, might by possibility, be affected by the acts of a Body in London so remote from the scene of their operations. . . . Our present object however confines us to expressing a hope that H.M. Government will not endow any company now formed or which may hereafter be formed in London, with any exclusive privileges to the prejudice of the colonial institutions."

This same fear that the custody of the public money might be transferred to the Bank of Australasia, led the three Sydney banks to protest a year later against any preferential treatment of the English bank.[2]

"A proposition has been made by the local Directors of the Bank of Australasia to the Senior Commissariat Officer here to cash all Treasury Bills he may have occasion to draw on the condition of that Bank being made the sole means of payment from the Military Chest here, instead of this being as hitherto, divided among all the banks. As it is apprehended that such a measure would be injurious to the Colonial Banks . . . we do ourselves the honour on behalf of these institutions to request

[1] 31/1/1835, P.R.O., T.1, 3469.
[2] Letter dated Sydney, 25/1/1836, to Hon. J. Stewart, Under-Secretary to the Treasury, P.R.O., T.1, 3469.

that the Rt. Hon'ble the Lords Commissioners of H.M. Treasury will not sanction the exclusive preference of any one Bank to the prejudice of the others."

But there is no mention of the willingness of the local bank to render the same service.

In Van Diemen's Land, the Derwent Bank [1] complained to the Governor that the directors had heard that the new bank was to have *all* the Government money.[2]

"We ask no exclusive privilege. We do not even urge as reasons for giving us a preference that our credit has been long established and known to the Government, that we use in Van Diemen's Land the whole profits of our Bank, while five-sixths of the profits of the new company will be annually drained from the Colony and spent in England. But we respectfully claim to be put on an equal footing with the proprietors of the new bank. . . . And we need not point out to Your Excellency that a Bank doing business in London, at the Cape—in Sydney—Parramatta, Hobart Town and Launceston may soon contract engagements to ten times the amount of its stock especially when the general operations of the Bank are directed in London by persons who cannot possibly know the daily fluctuations incidental to all Banking business and whose direct and immediate interest must impel them to discount as largely and to circulate their notes as extensively as possible without that check which the responsibility of co-partners always maintains."

When the Tamar Bank suspended payment on 26th September, 1836, the Bank of Australasia was quite unjustly accused of causing the suspension by denuding the Island of specie for its branches on the mainland, and the Bank went so far as to issue a public advertisement that this was not the case. Throughout all these difficulties, moreover, the Governor of Van Diemen's Land backed up the local banks against the London institution. The Public Accounts, according to the usual colonial practice, were divided equally between the local banks, and the first brush occurred when the Governor refused to permit the Bank of Australasia to participate in this arrangement. In a letter

[1] A typical small local partnership. In 1833 it had a nominal capital of £20,000, deposits of £23,500, and a circulation of £10,000.

[2] Letter from Derwent Bank to Governor Arthur, P.R.O., T.1, 3469.

to Lord Glenelg,[1] Governor Arthur had already expressed strong disapproval.

> "I cannot conceal from Your Lordship the impression made upon my mind that its" [establishment of the Bank] "first effect has been to disturb existing relations and to occasion considerable loss to H.M. Government. . . . The Government and Colony will be dependent upon a foreign establishment with which there can be no successful competition. . . . To ensure a continuous competition it may therefore be necessary to restrain this Company in the first instance. I understand it is in contemplation by the other banks in reference to the advantages secured to the Bank of Australasia by its Charter, to seek for compensation from H.M. Government." (!)

John Montagu, the Colonial Secretary in Van Diemen's Land, in a Memorandum sent to the Governor on this matter (and passed on to the Treasury) ventured a prophecy:

> "Once having obtained a monopoly of the Money Market in the Australian Colonies, it does not require much foresight to see that the London Board will extend their operations, if they can obtain a similar Charter, to other Colonies, and by that means, and by degrees, obtain an ascendancy in all the British possessions abroad, which will make itself sensibly felt by the Lords of the Treasury in their colonial financial arrangements, and raise up an *imperium in imperio* which may in time look to higher ends than the profits of Banking Establishments." (!)

The Governor's decision not to allow the English bank a share in the public business was based on the belief that the limited responsibility of the shareholders and the fact that for the most part they did not live within the Colony and were beyond the jurisdiction of its Courts, debarred the Bank from the privileged treatment accorded to the local institutions. But his hands were appreciably strengthened in this matter by the attitude of his Executive Council, which in 1837 minuted its disapproval of the new bank. The Council "have also in view the present rage for Joint-Stock Companies in Great Britain and the reports which occasionally reach this Colony of speculations of a similar character with the Bank of Australasia being in

[1] Dated 15/7/1836, P.R.O., T.1, 3470.

contemplation." [1] A year before, a Committee of the Legislative Council had been appointed to consider the best means for counteracting the outflow of specie from the Colony—a suspiciously familiar problem—and in the course of its deliberations, accusations were made that the Bank of Australasia was spiriting away the specie. From the Minutes of Evidence [2] it is of interest to extract the following arguments:

"*Q*. 6. With regard to your answer as to the operations of the Bank of Australasia, in what manner do you believe they operate upon the currency?

*A*. (John Dunn, Managing Director of the Commercial Bank of Van Diemen's Land.) The Bank of Australasia, so far as I am informed, to meet their drafts from Hobart Town on London, make remittances from Sydney by Bills purchased at a Discount and the specie must be sent from Hobart Town to Sydney to make these purchases. Moreover the Bank of Australasia having a large capital in London to draw upon and having for some time past drawn upon London at par, while the Commissariat were drawing at a premium of 1½ per cent., the effect has been that a large portion of specie has flowed into their coffers while the Military Chest has been progressively drained by its ordinary issues and not replenished by the proceeds of Treasury Bills. . . .

*Q*. 12. In fact you apprehend that the Bank of Australasia would in process of time have acquired the entire monopoly of the specie?

*A*. I do, and it would have been in the hands of what I consider an irresponsible body. . . . By the Charter of the Bank of Australasia each proprietor is only liable to double the amount of his share, whereas each proprietor of any one of the banks of Van Diemen's Land is liable to the whole extent of his property and in his person too. Moreover the proprietary of the Bank of Australasia is at a distance of 16,000 miles and perpetually passing from hand to hand and composed of parties whose persons and property are in the highest degree unknown to the inhabitants of the Colony, whereas the proprietors of the Colonial Banks are almost all resident in the Colony and their property is with them and visible to the community."

In reference to the Answer to Question 6, it seems relevant to suggest that if the English bank drew on London from

[1] Extract from Minutes of the Executive Council, Hobart Town, 20/3/1837, P.R.O., T.1, 3470.
[2] P.R.O., T.1, 3470, June 1836.

Hobart Town at par, whereas it could purchase bills on London in Sydney at a discount, the cause of the drain of specie might have been inflation of the currency in Van Diemen's Land.

The upshot of the matter was that the Governor's unfavourable decision was reversed by the Treasury, the reasons for rejecting the English bank's claim being held to be insufficient, especially in view of the Bank's large capital and the effective supervision maintained by the Government in London. The complaint about the rumoured monopoly of Public Accounts by the Bank, soon died down because the declared policy of the home Government all along had been to avoid giving monopoly of any sort to the Chartered Banks. Moreover, it was specifically laid down by the Treasury Minute of 2/12/1834 that "H.M. Government had not contemplated the grant of any exclusive privilege to the proposed Chartered Banking Company in regard to the Deposit of Public Money" and the Colonial Governors were soon made aware of this. As to the complaint of unfair competition by a "foreign" bank, there is no doubt that this competition resulted in considerable benefit to the colonists as a whole, as in most of the Australian settlements, discount rates were reduced by 1 or 2 per cent., although even then the charge in many cases was 10 per cent. for three-months' discounts and 8 per cent. was allowed on deposits. Exchange on London was provided at cheaper rates, and sometimes the Bank undercut the official rate for bills on the Treasury in London. The directors apparently hoped much from their better organization and large capital in this matter; their second Report of June, 1836, for instance, records that

"it has been considered very desirable that every facility should be afforded by this establishment in transacting the exchange business between Great Britain and the Australasian Colonies. The Directors issued an advertisement . . . giving notice that the Bank Office was open for granting Letters of Credit and Bills on their colonial establishments on certain specified terms; and also that applications would be received for the negotiation or recovery of bills on those colonies; this has led to some amount

of exchange business which" [according to the third Report] "has steadily increased."

These solid benefits must have done much to silence local opposition, and in addition, the Treasury in London often helped the Bank by judicious interference, as when it succeeded in reversing the decision of the Governor of Van Diemen's Land, so as to put the Bank on an equal footing with the local institutions as regards the custody of the Public Money. The Treasury Minutes constantly show that the Lords Commissioners were quite alive to the weaknesses of the local banks and would therefore have no scruple in supporting an English Chartered Bank against them. The Minute of 2/11/1826,[1] for instance, approving the action of the Governor of New South Wales in giving assistance to the Bank of New South Wales, states that

> "My Lords have had under consideration the whole of this correspondence and from its perusal they are not at all surprised at the difficulties and dangers in which this establishment had involved itself by the very improvident manner in which with reference to the amount of their actual capital, they had granted accommodation and extended their obligations which is observed from the Report of the Board who were appointed to investigate the concerns of the bank, as being the primary cause of their difficulties."

Of the Bank of New South Wales at present, this would sound strange enough.

Once the English bank had definitely started a considerable business in the Colonies, the opposition gradually died down, and in 1846 the Bank so far considered its own welfare bound up with that of its local competitors that it lent £150,000 to the Bank of Australia, in an endeavour to set that institution on its feet—and in consequence of not being able to recover the money, had to pass two years' dividend.

An instructive analogy to the early career of this bank is provided by the case of the Union Bank of Australia, which was never chartered and started simply as a banking copartnership. Both the Bank of Australasia and the Union

[1] P.R.O., T.1, 3469.

Bank began by absorbing local institutions in Tasmania. The first Report of the former records that

"in consequence of several communications which had taken place between the Directors and Mr. James Henty, agent for the proprietors of the Cornwall Bank at Launceston, in Van Diemen's Land, a proposition in writing was made on the 2nd March, 1835, by that gentleman for an arrangement by which the business of the Cornwall Bank should be transferred to the Bank of Australasia and this after due consideration was agreed to by the Directors."

The Union Bank subsequently also advertised that [1] "an important advantage in the present undertaking is the junction of one of the most profitable Banks in the Colonies with this establishment, which measure, it is expected, will be followed by the coalition of others at the principal stations." In spite of the efforts made—e.g., reservation of a large block of shares to facilitate absorptions—it is significant that no "coalition" materialized in Sydney.

The interesting suggestion has been made in connection with the foundation of the Union Bank that the competition of the Bank of Australasia in Van Diemen's Land caused the Tamar Bank, a small local concern, to seek increased strength from London, and that the Union Bank was formed as a result of this.

"Mr. Gillies in conjunction with Mr. Philip Oakden of Launceston, Mr. James Cox of Clarendon, and some of the Archers of Tasmania, combined themselves into a company called the Tamar Bank. . . . The success of this institution, which dealt largely in advances on grain from Tasmania to Sydney, induced the Henty family to emigrate from England to Tasmania, from which sprang the Bank of Australasia. The competition of this bank, which demanded daily settlement of exchanges, caused Mr. Philip Oakden to be sent to London in order to strengthen the old Tamar Bank and from his negotiations arrangements were made from which grew the Union Bank of Australia." [2]

It seems clear though, that the manifest advantage of buying a way into the Colonies, might have brought about absorptions in any case.

[1] Prospectus, September 1837.
[2] *Some Remarks on Australasian Banking*, by J. J. Walker. Paper No. 4 of the Australian Economic Association (1888).

The Union Bank was well supported in London—George Fife Angas, the famous Australian pioneer, was on the Board, and George Carr Glyn, the London banker, was one of the trustees. Its nominal capital was £500,000 against the older bank's £200,000, and Glyn, Edward W. Mills and Jacob B. Montefiore (one of the largest Australian merchants and director of the Bank of Australasia !) were amongst the original subscribers.

"In the establishment of a Bank of Issue and Deposit under the above title, the Directors are chiefly impressed with a conviction of the importance of meeting the increased demand for capital in the Australasian Colonies. . . . The Directors are fully persuaded that in no part of the world can capital be more advantageously or more securely employed than in Australia, where the Bank Interest is 8 per cent. and the current rate considerably higher, and where the dividends of the Colonial Banks have hitherto averaged fully 15 per cent. per annum. . . . A local currency based upon a capital affording unquestionable security, is much wanted and loudly called for." [1]

In spite of the absence of a safeguarding charter, the whole of the shares were taken up as soon as issued without having been offered for sale by advertisement, and the deposits and instalments paid up without any default; [2] 7,000 shares were reserved for colonial subscribers and the remaining 13,000 sold in England. (The Bank of Australasia allotted only 500 of its first 5,000 shares to the Colonies.) The colonial shares were not allowed to be transferred to the English register and the directors held steadfastly to this arrangement against the wishes of an important deputation of colonial shareholders, as they considered that a large colonial proprietary was essential to build up the business in Australia.

By 1840, Acts in favour of the Union Bank had been passed by the Colonial Legislatures, and the Bank was thus placed on a footing of legal equality with the other institutions and enjoyed its share in the deposit of Government funds. The concern was also by this time bankers to the New Zealand Company and close agency relations were

[1] Prospectus, September 1837.
[2] First Report of the Directors, 26/6/1839.

maintained with the South Australian Company. Instead of sinking capital in a charter, the directors of this bank preferred to allot a greater proportion of shares to the colonists and obtain local recognition from Acts of the Colonial Legislatures rather than from a charter. In this matter it had the not very encouraging experience of the Bank of Australasia for guidance—and the preliminary expenses of the two Banks, £859 1*s.* in the case of the Union Bank and £3,749 2*s.* 2*d.* the other, certainly suggest that the Bank of Australasia paid rather dearly for its privileges, especially in view of its smaller size. Sometimes the Union Bank procedure caused awkward situations, of course, as in 1871. In this year, the Chairman, in his annual speech, referred to the difficulty of converting

> "this long-established bank into a limited liability company. . . . We had no alternative but to apply for an Act of Parliament in this country, which has become necessary from the simple fact that in prosecuting a claim arising for the first time within a period of 33 years, we have to set out the names of every individual partner of whom there are 1,700."

The Bank of South Australia, the next Anglo-Colonial bank to operate in Australia, was an offshoot of the South Australian Land Company of 1835, whose charter permitted "the establishment of a bank or banks in or connected with the new Colony of South Australia, making loans on lands or produce in the Colony or the conducting of such banking operations as the directors may think expedient." (It is curious that the Company's charter bears no trace of the application of the familiar Banking Regulations.) The Bank [1] started business in 1837, and in 1840 about two-fifths of the Company's capital was employed therein, the dividend from the banking business being sufficient to pay 6 per cent. on the Company's capital. The Bank was then detached from the Company and a charter granted it in 1841 as the "South Australian Banking Company." Two of the original directors of this bank (and of the Company), Christopher Rawson and George Fife Angas, were also directors of the

[1] Some account of its early history is to be found in Nash, *Banking Institutions of Australasia.*

Union Bank of Australia, which explains the agency arrangements noted above.

Comparative figures of these first three banks are appended. They certainly do not point to any overwhelming business advantage gained by a charter in this particular field.

PAID-UP CAPITAL (UPPER FIGURE) AND NET PROFITS (LOWER FIGURE) OF THREE AUSTRALIAN BANKS

<table>
<tr><th></th><th>1836.</th><th>1837.</th><th>1838.</th><th>1839.</th><th>1840.</th><th>1841.</th></tr>
<tr><td></td><td>£</td><td>£</td><td>£</td><td>£</td><td>£</td><td>£</td></tr>
<tr><td>Bank of Australasia</td><td>200,000<br>14,728</td><td>200,000<br>21,909</td><td>200,000<br>23,385</td><td>400,000<br>44,362</td><td>400,000<br>63,910</td><td>600,000<br>67,025</td></tr>
<tr><td>Union Bank</td><td>—<br>—</td><td>—<br>—</td><td>143,972<br>4,712</td><td>268,930<br>14,651</td><td colspan="2">542,787<br>90,614</td></tr>
<tr><td>S. Australian Bank</td><td>—<br>—</td><td>—<br>—</td><td>—<br>—</td><td>—<br>—</td><td>—<br>—</td><td>162,100<br>10,000</td></tr>
</table>

<table>
<tr><th></th><th>1842.</th><th>1843.</th><th>1844.</th><th>1845.</th><th>1846.</th></tr>
<tr><td></td><td>£</td><td>£</td><td>£</td><td>£</td><td>£</td></tr>
<tr><td>Bank of Australasia</td><td>600,000<br>70,095</td><td>900,000<br>54,440</td><td>900,000<br>45,112</td><td>900,000<br>31,083</td><td>900,000<br>46,586</td></tr>
<tr><td>Union Bank</td><td>743,525<br>82,099</td><td>806,130<br>84,465</td><td>813,730<br>50,879</td><td>820,000<br>55,781</td><td>820,000<br>56,060</td></tr>
<tr><td>S. Australian Bank</td><td>162,100<br>9,800</td><td>162,100<br>3,152</td><td>162,100<br>—</td><td>162,100<br>—</td><td>162,100<br>11,601</td></tr>
</table>

The Bank financing English trade with what was then the most valued portion of the British Empire, namely the West Indies, would possess a quite special importance, and for this reason and on account of its large capital—£2,000,000, the Colonial Bank was in its day the most important Empire Bank in existence ; it is certainly fitting that it should have been largely restored in recent times to its old position of pre-eminence, by the Barclay amalgamation.

The Colonial Bank in truth may be called the child of the Committee of West India Merchants [1] (now the West India

[1] Although no mention is made in the Minutes of the Committee, of this bank.

Committee) since of the following subscribers to the charter of 1836, five were members of the Committee (names marked *). The liberal representation of London bankers is also noticeable :

COLONIAL BANK SUBSCRIBERS.

| | |
|---|---|
| *Andrew Colvill (*Chairman of the Committee*) | *Charles McGarel |
| *John Irving | Wm. Miller |
| Æneas Barkly | Abraham George Robarts |
| David Barclay | Thos. Masterman |
| *James Cavan | Chas. Marryat |
| *John Alexander Hankey | Thos. Moody |
| Wm. Tetlow Hibbert | Samuel Gurney |
| John Gurney Hoare | Alexander Stewart |
| John Irving the Younger | Patrick Maxwell Stewart |

In the words of the charter, the Corporation was " established for the purpose of carrying on the business of a banker in Jamaica and the other West India Islands and British Guiana and not elsewhere." Of the nominal capital of £2,000,000, £1,500,000 was allocated to subscribers in the United Kingdom and the rest to the Colonies. As to the details of the charter, most of the " Regulations " were reproduced after the usual struggle with the Treasury, the important exception being that in place of the normal double liability clause, the shareholders of the Colonial Bank were only to be liable for the amount of their subscriptions because of the Bank's large capitalization.

It was these facts which presumably earned for the Colonial Bank the title of " this extensive and princely establishment," [1] and which led to the demand in England for its stock, finally reaching a total of £7,000,000. Young even mentions that " previous to dividing the shares amongst applicants, the Directors, so far as their extensive knowledge led them to know, struck off the list the name of every applicant who it was supposed bought shares merely for the object of speculation and immediate sale to make gain."

From the first few reports of the new bank, there is evi-

[1] *Upon the History, Principles, and Prospects of the Bank of British North America and of the Colonial Bank.* G. R. Young, London, 1838, Guildhall Library.

dence of a hesitant policy on the part of the directors. The note-issue did not show the customary meteoric expansion in the early years; the Preliminary Expenses remained for a long time at their original high (even for a Chartered Bank) level of £18,260; and the dividends were unusually low:

| | Per cent. | | Per cent. |
|---|---|---|---|
| 1838 | 4½ | 1843 | 1½ |
| 1839 | 6½ | 1844 | nil |
| 1840 | 8 | 1845 | 1 |
| 1841 | 8 | 1846 | 3 |
| 1842 | 4½ | 1847 | 4 |

The explanation lies partly, of course, in the depression which the West Indies had to face in the forties and for many years after, due to the sudden emancipation of the slaves. This consideration should have cooled the ardour of some of the original subscribers. In addition, serious losses were suffered through a theft at Barbados—theft and frauds in the early days of overseas banking being quite common and usually serious, in spite of expensive checking systems and travelling inspectors. The fact that the note-issue did not expand rapidly in the first few years was due to another sort of difficulty (which incidentally, in this case, did not trouble the local banks) that currency in the West Indies was unusually defective and unsound. Colonial Bank notes, according to the charter, were "payable in dollars to bearer on demand" only, whereas the local banks could redeem their notes in any of the various debased or over-valued coins circulating in the Islands. By an Order in Council of 14/9/1838, the Bank was permitted to redeem in gold coins in addition to silver dollars, and the charter as amended in accordance therewith solved some of the difficulties. But some of the trouble came from the opposition which the Bank had to encounter from the inhabitants of the Islands and from the English officials—an almost exact parallel to the situation in Australia. Moreover a temporary fillip to the prosperity of the Islands had been applied in 1833–4 by the payment of the slave compensation money, and the date of the incorporation of the Colonial Bank coincides approximately with the emergence of the few independent *local*

banks which were built up on this temporary prosperity. Opposition was therefore inevitable.

Some parts of the Islands, which had never been used to note-issuing banks and feared to make the experiment, objected both to the "foreign" origin of the Colonial Bank *and* its note-issuing powers. In 1838, for instance, the inhabitants of Barbados petitioned the Queen [1] and sought to show that there was no case to be made out for the extension of the charter of the Colonial Bank to enable it to redeem its notes in the same way as its competitors—the circulation of the Bank's notes being, of course, absolutely dependent on this extension.

"Your Petitioners have further most respectfully to submit to Your Majesty that notwithstanding there was an abundance of Gold Coins in this Island for internal and external trade, a number of wealthy capitalists in London projected a Company designated 'The Colonial Bank,' who obtained a Royal Charter from Your immediate predecessor William the 4th of blessed memory, with powers to issue bank notes, that many of Your Petitioners believe all writers on political economy concur that in a country where there is a sufficiency of the precious metals to carry on the functions of trade the intervention of paper money displaces a like quantity of metallic, out of the country . . . and as dealing in money with a large capital and many branches such as the Colonial Bank, gives it the power of withdrawing from circulation a large portion of the silver coins when there is a prospect of gain by exporting it. . . . WE Your humble Petitioners therefore most earnestly pray Your Majesty may not grant any further powers to the Colonial Bank."

From British Guiana came more substantial opposition against the English origin of the Colonial Bank. First, the local "Bank of British Guiana" was incorporated by Ordinance No. 82 of 1836, and a petition sent to the Queen asking that the Royal Assent might not be withheld from the Governor's Ordinance.[2]

"We feel grateful to Your Majesty's Government for having by the timely payment of the compensation money awarded by the Imperial Parliament rescued the colonial interests from a state of dependence on merchants and others residing in the

[1] Petition dated 22/11/1838, P.R.O., T.1, 3473.
[2] P.R.O., T.1, 3473.

Mother Country and we humbly entreat Your Majesty to discountenance any specious propositions from persons non-resident in the Colony, however respectable, which have the least tendency again to drain it of that capital which ought to centre in itself. The institution of a local bank is, in the humble judgment of Your Majesty's dutiful and loyal subjects of British Guiana far preferable to a Branch of any Bank originating in England and we do humbly entreat Your Majesty so far at least to foster and protect it as to give no greater privilege to any other bank than Your Majesty may be graciously pleased to confer on the Bank of British Guiana."

But before the local Act of Incorporation had received the Royal Assent, the promoters of the local bank had bought premises and started business, and fearing the competition of the Colonial Bank, they again petitioned for the favour of the English Government. In the Colony itself, however, the almost perfect unanimity amongst the inhabitants suggested by the Memorials, was certainly not realized in practice, and the debates [1] of the Court of Policy on the subject of the Ordinance, were very stormy. The Hon. Mr. Rose (who ultimately became local manager of the Colonial Bank) began by moving a vote of censure on the Lieutenant-Governor, for having subscribed to the local bank ! A supporter, the Hon. George Raing, opposed the introduction of *any* bank into the Colony and cited arguments which seem sounder than most.

"I cannot discover the existence of that state of things which I think requisite to sustain a bank. . . . The chief demand here has been and as I conceive is likely to be—while the staple products of the Colony are in much request—for capital to be permanently invested, that is, for a term of years, and not for these temporary accommodations to supply which in my view it is the due province of a bank to confine itself. Such capital when wanted is required in pretty large masses and the results of its employment can only be brought to maturity at a distant period, generally after the lapse of years."

Meantime the Lieutenant-Governor was inundated with letters of complaint from the directors of the local bank in course of formation, containing the usual objections to English banks.

[1] Copy of the official record of the debates is attached to the Memorials.

"By the constitution of the Colonial Bank its corporation consists of a large body of individuals not resident in nor identified with the local interests of the Colony and this is proved by the Directors having only allotted in the first instance 3,000 which have since been reduced to 2,000 shares out of 20,000 to the Inhabitants of the W. Indian Islands generally—an apportionment not equal in amount to the proposed capital of the local Bank and further that even the small portion of interest which the W. Indian colonists may have by the possession of the 2,000 shares can in no way be exercised to have any influence or control over the governing body which resides in London 4,000 miles from the scene of its operations. . . . It is to be hoped that the feelings engendered between the Mother Country and her Western dependencies do not require that the bonds between them should be knit closer by the establishment of such an institution as the Colonial Bank." [1]

It is true that some of the proprietors are West Indian merchants *now* but they may change. What expectation is there that the affairs of this English bank will be given the publicity which the colonists would naturally expect from the local bank? The directors are full of really acrimonious comment on this "*soi-disant* Colonial Bank . . . whose shares are even in this early stage of that Institution quoted in the London papers as already at a discount!" The local bank will be founded upon a much better plan—"The principles on which it is proposed that this Bank shall be conducted are such that while it will not be formed after the model of any existing institution, it will, so far as the different state of things in this Colony will permit, embrace the practical advantages peculiar to the Scotch banking system"—the Scotch cash credit system was notoriously unsuitable for a planters' bank—but this bank "would be of essential service in the relief of Planters, freeing them from the oppressive charges imposed on them by the English mortgagees." [2]

But the original Ordinance of incorporation showed great imperfections upon the application of the Banking Regulations (which had not, as yet, been circularized to the Colonial Governors) in London. The capital was to be

[1] Letter from Bank of British Guiana to Lieutenant-Governor dated November 1836, P.R.O., T.1, 3473.
[2] Prospectus of the Bank of British Guiana.

Gs. 4,200,000 (about £300,000), two-thirds being apportioned to subscribers resident in British Guiana and the remainder "to persons connected with the said Colony or with the said Corporation as Agents, resident elsewhere." The Corporation was to be empowered to do a general banking business for twenty-one years, but "banking business" was held to include several activities which were prohibited altogether by the Regulations—the Bank, for instance, could "purchase and hold land and any other property"; on insolvency, the proprietors were to be responsible to the extent of their shareholdings only; there was no limitation on loans to directors and the arrangements for the publicity of accounts might have been adequate for the shareholders but were not sufficient for the general public, according to the standard required by the home Government (which was not very high) and afterwards incorporated in Regulation No. 13 of the 1840 series. Finally, there were serious ambiguities in the clause relating to the redemption of the Bank's notes in specie, and the Bank of British Guiana might have taken unfair advantage of this in competition with the Colonial Bank.

The Ordinance, in accordance with colonial practice, had a saving clause at the end, providing that in so far as it authorized the circulation of Promissory Notes and other paper payable by the Bank, it should not come into operation until the sanction of the Crown had been obtained. So far were the colonists convinced of the justice of their case that by the time news of disallowance reached the Colony, some paper had been put into circulation, and this, of course, had to be withdrawn and an amended Ordinance prepared for submission to London. Up to this time, the Colonial Bank had not interfered, but bearing in mind the possible success of this new application (it was, in fact, disallowed for non-correspondence in several respects with the Regulations, and again amended) the Bank petitioned the Colonial Office, the Treasury and the Board of Trade, to urge the defectiveness of the second Ordinance and the claims of its own organization for a fair start before competitors were allowed to enter the field with the same privileged position. The

directors felt sure " the peculiar privileges granted by H.M. Government would be invalidated by any new corporate body existing "—it is difficult to see why.

" All that we now set out to obtain " [is] " a strict fulfilment on the part of Government of the terms so clearly understood between you and those gentlemen who composed our Deputation, viz. that the Bank should enjoy the countenance of the Government and that whilst you reserved every power to grant further Charters, similar to ours, such power should not be exercised until the Colonial Bank had had fair time allowed for its Establishment or until some case of necessity for an additional bank should be made out. Nor was this concession on your part anything beyond what the importance of our case was justly entitled to—our undertaking is one of great difficulty and fraught with incalculable advantage to the Colonies at large and you seemed to view it rather as a National than an Individual Enterprise, such in fact being its character and direct tendencies. . . . On the fair and general ground of our recent commencement of business,[1] of the cost, and extent, and sufficiency of the preparations which we have been forced to adopt, as well in Guiana as in all the other Colonies—and the absence of all necessity, proved or even alleged for another Banking Establishment in Guiana—on these grounds we ask that the Royal assent be withheld from the Bill in question. . . . In detail it contains as many objectionable principles as the Jamaica Act did, and we humbly submit that it ought to be dealt with in a similar way." [2]

The support of the Governor, as a shareholder, " must be held to amount to a mere personal interest in the measure and to nothing more." [3] Gs. 700,000 of the Bank of British Guiana's capital, in fact, was also intended for allotment to the local Government, apart from the Governor's holding.

The Board of Trade, as might be expected, disclaimed any such arrangement as that referred to in the letter, and the opposition of the Colonial Bank was unsuccessful, the local bank having a long and useful life before it was finally absorbed by the Royal Bank of Canada in 1914. British Guiana, in fact, was the only Colony in the West Indies where

[1] News reached the Colony of the proposed formation of the Colonial Bank in April 1836, and the Bank began business 16/2/1837.

[2] The Jamaica Act was disallowed.

[3] Letter from the Colonial Bank to C. Poulett Thomson at the Board of Trade, 25/9/1837, P.R.O., T.1, 3474.

the Colonial Bank was subjected to sustained competition before the arrival of the Canadian banks.[1]

In Jamaica, Ordinance No. 3236 incorporated another local institution, the "Bank of Jamaica," in 1837, with a nominal capital of £300,000 (Jamaica currency: that is, about £215,000 sterling) and liability limited to shareholding. The constitution of the Bank violated the Regulations in several important instances—authority was given to double the capital without consent of the Legislature or the home Government; power was taken to issue Notes of £1 each payable in dollars, when there was no legal ratio between the two coins, and disallowance, as a result of these and many other detail irregularities, was immediately recommended. The Bank now carried on business as a joint co-partnership under a Deed of Settlement, as it had already worked up a small business before news of the disallowance was received; but the Directors strongly suspected that the failure of their application for incorporation under limited liability was due to pressure put upon the Home Government by the Colonial Bank. The President, John Maes, wrote privately to the Marquis of Normanby [2] suggesting

> "that our failing to obtain a Charter is attributable to the opposition raised by influential persons in London connected with the Colonial Bank, who from the apprehension of rivalship, and by means of misrepresentation, created a prejudice against the undertaking. Of this I am certain that the most virulent feeling is entertained by the Colonial Bank towards the Bank of Jamaica which has been made manifest by various open hostile proceedings and it is also at work in a secret and determined manner to effect our destruction if that can be accomplished. . . . Every endeavour will, I am convinced, be made by the party previously alluded to connected with the Colonial Bank to work evil towards us and they will not fail to avail themselves of every circumstance that can by ingenuity be construed to operate to our injury."

The Colonial Bank *had* made representations to the Government, but the President's letter produced no effect,

[1] Some account of this local Guiana bank, started by Hugh Robertson, a Scotsman, who began his career in the Inverness branch of the Royal Bank of Scotland, appears in *Timehri*, the Journal of the Royal Agricultural and Commercial Society of British Guiana, September 1913.

[2] Letter dated 6/5/1839, P.R.O., T.1, 3479.

perhaps because the Colonial Office was not dismayed at the prospect of a weak institution like the Bank of Jamaica being displaced by a strong London concern. It does not require much "ingenuity" to "construe" the following circumstance to the injury of the Jamaica Bank—a Statement of Affairs [1] showing a "Liability to the Public of Jamaica on Notes in Circulation" of £269,161 and on Deposits of £187,042, with a paid-up capital of only £56,000. Discounts and Advances were £374,447 and "Cash in the Coffers of the Bank, in the hands of its agents in Jamaica, in those of its London bankers and its agents in New York" £146,791. This document incidentally was seized upon by the Colonial Bank and triumphantly dispatched to Lord Glenelg (without comment) who, with characteristic indecision, asked whether the directors of the Colonial Bank considered the proceedings to which their letter referred as an infraction of any existing law! It was surely obvious that any emergency would upset the Bank of Jamaica and bring ruin upon the note-holders.

Complaints about this bank were coming in from another source. The Governor of Jamaica wrote informing the Colonial Secretary that the Bank of Jamaica was circulating an excessive quantity of notes. The Bank advanced its notes against land and growing crops, "which, I should think, exposed the Holders of such Notes to considerable risk." It claimed the right to redeem either in British silver or in "Island Checks," which were notes issued by the local Government without any specie backing, and so long as the option was exercised of paying in the inflated "Island Checks," it was impossible for the Colonial Bank, bound as it was by its charter to redeem in silver dollars, to issue any of its own notes at all.

"The interests of all parties in the traffic are so dovetailed, I cannot see how the evil is to be got over, as long as Island Checks are allowed to represent the credit of the Government. There has been a good deal of bickering I believe, between the two banks, but being powerless, I have never interfered in any way. The Jamaica Bank is a private institution and *no man can*

[1] Dated 30/6/1838, P.R.O., T.1, 3479.

*be compelled* to take their notes, nor are they commonly refused, but with half a million in circulation, it may be presumed a great proportion of such notes get into the hands of the labouring Population, and if anything should occur to render it inconvenient to the association to grant the optional condition of payment, *great distress would accrue* to a deserving class, who have not intelligence enough as yet to avoid the delusion of such useless paper as the substitute of money." [1]

The question of the Island Checks was ultimately solved by a committee of the Governor's Privy Council in Jamaica, which reported in favour of withdrawing the Checks and funding the Island debt. During its deliberations, two other banks were proposed for the West Indies, the Union Bank of Jamaica and the West India Bank, but they were set aside by the Treasury on the ground that it would be advisable to await the Governor's report of the arrangements that might be adopted for retiring the Island Checks before any additional Banks of Issue were chartered or incorporated, and there is no trace either of these institutions or the Bank of Jamaica (which probably did not survive the retirement of the Island Checks) after this.[2]

Another parallel situation, exemplifying colonial opposition to the introduction of a "foreign" bank, existed in Mauritius. The first bank of Mauritius, supported by the East India House Reid, Irving & Co., was almost as English as the Colonial Bank itself; the second bank, the Mauritius Commercial Bank, was founded as a purely local concern with the new capital from the slave emancipation money in 1839—and subjected incidentally, unlike its competitor, to the restraints of the Banking Regulations, which had by this time been clearly formulated. The petition to the Governor, outlining the constitution of the proposed second bank, recites [3] that

[1] Letter to Lord Glenelg, 15/2/1839, P.R.O., T.1, 3479.
[2] The "West India Bank" was chartered in 1840, but the Official List says, "No trace after 1842." See Appendix II.
[3] *New Bank at Mauritius*, Port Louis, 1838. Colonial Office Library.

"No share shall be disposed of to any parties but to those residing in the Colony or being connected with or having property in the Colony—and in all cases no greater quantity than one-fifth of the whole number of shares shall be allowed to be possessed by persons residing altogether abroad unless they cannot be disposed of at their original value in the Colony. In almost all British Colonies" [concludes the Petition] "Towns of any magnitude have rival Banking Establishments, which by acting as a constant check upon each other, tend to prevent usury and monopoly. . . . The Cape of Good Hope has two banks—Sydney four—Hobart Town two—and Launceston two—all of which places are infinitely inferior in the extent of their commercial importance to this Colony." (!)

As in the case of the West Indies, the local bank project was assailed by the most furious criticism from its London competitors, and in this case the first bank was well established as the official depository of the Military Chest and the Commissariat Department, so that it was well fortified against possible competition. Nevertheless, Reid, Irving & Co. went to the length of threatening the Government that all the outstanding accommodation of their bank might have to be withdrawn if the ordinance incorporating the second bank were sanctioned.

"In other Colonies the principal Banks have a direct connexion with the Mother Country and an English interest by having a great part of their shareholders and some also their directors resident in this country. This which is especially requisite in the case of a French Colony is wanting to the Commercial Bank of Mauritius. Of all the shareholders . . . not one is resident in this country. It is true as we understand that the application for a Charter has been backed by very respectable names at home but not one of these parties has a direct interest or direct risque in the matter." [1]

But the constitution of the Commercial Bank was made to fit the Regulations, the ordinance was sanctioned, and the opposition proved ineffective.

In the *Quebec Gazette* of 9th August, 1792, there

[1] Letter to Lord Glenelg, 15/12/1838, P.R.O., T.1, 3480.

appeared an advertisement of the Canada Banking Company, which was to operate at Montreal. The advertisement is dated at *London*, 17th March, 1792, and is signed by Phyn, Ellice & Inglis, London merchants, Todd, MacGill & Co., and Forsyth, Richardson & Co., both Montreal merchants. " The bank was a purely private one and no effort seems to have been made to secure a charter for it, as some have supposed." [1] Some notes were issued but the project seems to have been abandoned early. It is of historical interest as the first attempt to found a bank in the Canadian Colonies with direct initiation from London. Next, "in July 1833, Mr. Dalton, the Editor of the *York Patriot* . . . assured the readers of his journal that some of the greatest capitalists of London, among them the Rothschilds and the Barings, had resolved on establishing a bank in Upper Canada." [2] But nothing came of this either. The third and the successful attempt came in 1836, when the Bank of British North America was incorporated with a nominal capital of £1,000,000, as a joint-stock company, empowered to sue and be sued in a single name in the United Kingdom, by 6 Wm. IV, c.17, and in the Canadian Colonies by Acts of the respective Legislatures.

> "A great advantage and indeed an important part of the business of this bank is the conducting the exchanges between this country and our N. American settlements, and this consists simply in buying and selling bills upon London, precisely in the same way as our provincial bankers do." [3]

Joplin viewed the foundation of Anglo-Colonial "exchange" banks, like the present, with much favour because they took the risky and specialized business of exchange out of the hands of mercantile houses. " Strange to say," writes Joplin, " our Government actually resisted the formation of the British North American Bank." What seems stranger is that Joplin should apparently have forgotten the disturbed state of Canada at that time—it was this, in fact, which cast a gloom over the birth of this otherwise fortunate institution.

[1] This corrects Breckenridge's *Canadian Banking System* in some details and is quoted from Shortt's " Early History of Canadian Banking " in the *Journal* of C.B.A. for April 1897.

[2] Shortt, *op. cit.*

[3] Joplin, in the *Economist*, 1/7/1837.

The Bank was supported in London by a well-known directorate, Sir Robert Campbell, Oliver Farrer and William Medley, all of the Provincial Bank of Ireland, and Sir Andrew Pellet Green, of the Bank of Australasia, being amongst the first directors. Its branches were opened rapidly—by the end of 1837 it had branches in Montreal, Quebec, Halifax, Toronto, St. John, N.B. and St. John's, Newfoundland, and a paid-up capital of £340,000: that is, a capital larger than that of any other bank in the Canadas. Had it not been for the disturbed state of the Colonies at the time of its foundation, its progress would no doubt have been much faster. The banking position in Canada at that time—more developed than in any other colony, is summarized in the following table [1] giving the figures for 1836. The dominant position which the Bank of British North America would occupy from the point of view of resources, is clearly shown:

| | Capital Paid-up. | Circulation. | Deposits. |
|---|---|---|---|
| LOWER CANADA. | £ | £ | £ |
| Bank of Montreal (Branch at Quebec) | 250,000 | 194,039 | 266,997 |
| City Bank (Branch at Quebec and two agencies) | 200,000 | 85,000 | 29,894 |
| Banque du Peuple | No statements published. | | |
| Commercial Bank Mills & Co. | | | |
| St. Hyacinthe Bank | | | |
| Quebec Bank | 75,000 | 59,384 | 44,554 |
| UPPER CANADA. | | | |
| Bank of Upper Canada (Toronto, and twelve branches and agencies) | 200,000 | 226,654 | 157,620 |
| Commercial Bank (Kingston, 16 branches and agencies) | 186,450 | 175,123 | 33,367 |
| Gore Bank, Hamilton | 61,005 | 27,912 | 6,241 |
| NOVA SCOTIA. | | | |
| Halifax Banking Co. | No statement published. | | |
| Bank of Nova Scotia | 62,500 | 30,944 | 40,276 |
| NEW BRUNSWICK. | | | |
| Bank of New Brunswick, St. John | 50,000 | 50,809 | 42,657 |
| Commercial Bank of N.B., St. John (Branch at Miramichi) | 50,000 | No accounts published. | |
| Central Bank, Fredericton | 15,000 | 37,986 | 13,911 |
| Charlotte County Bank | No statements published | | |
| St. Stephen's Bank | | | |

[1] Extracted from Young's *Bank of British North America and the Colonial Bank.*

In 1838, the directors wrote to Lord Glenelg, suggesting that they might be made a depository for some of the Public Money, but their claim was rather abruptly dismissed when it was referred to the Treasury, partly because the Bank had no charter and did not submit to the safeguarding restrictions imposed upon the Chartered Banks—restrictions which were now being applied to the local institutions incorporated by Act of the Colonial Legislatures. It was probably some sense of the discrimination exercised against Non-chartered Banks which eventually led the Bank to apply to the Crown in January 1839 for a Royal Charter ; there is no evidence that the proprietors themselves wanted it. At the time of the application the Bank's subscribed capital amounted to £862,950 and ten branches were in active operation in Upper and Lower Canada, New Brunswick, Nova Scotia and Newfoundland. A draft charter was submitted to the Treasury but was severely criticized in several respects. Forfeiture of the charter on a continuous suspension of 130 days was considered too long a period of grace and was eventually altered to sixty days ; only £25 per £50 share was paid up, and the period for any further payment was left entirely to the discretion of the directors—this being a violation of the third Banking Regulation, which set a limit of two years for the payment in full of all subscriptions.

> "As however the application for a Charter proceeds from a Company already in operation and as the amount of the capital upon which it has been established is very considerable, My Lords would be prepared to assent in this case to some relaxation of the usual condition . . . as should not subject the Company to material inconvenience." [1]

This was an important concession, but there was another far more ardently desired by the Bank, this being the power to issue small notes, under £1 in value. Five shilling (or dollar) notes were common in Canada at the time, most of the banks—including the Bank of British North America—having issued them, so that when after a long struggle, the Bank had to accept its charter without the power of issuing small notes (these having been banned in England by 7 Geo.

[1] Treas. Minute, 9/4/1839, P.R.O., T.1, 3475–6.

IV, c. 6), it considered itself seriously handicapped in competition with its local rivals, who managed to retain the privilege. It was only after considerable agitation that the Bank succeeded, in 1852, in getting a Supplementary Charter, conferring this further power; for the time being, it had to submit to the Government's adverse decision and, in terms of its charter, withdraw from circulation by 31st December, 1841, half the small notes outstanding and "use all reasonable and proper means to call in, pay off, and cancel, the remainder of such notes." [1]

This must have been a severe blow to the Bank, particularly as it seems likely that one object of the charter negotiations was to place the Bank above the power of the Provincial Legislatures in the matter of the small note issues. In Lower Canada, for instance, by Act 10 & 11 Geo. IV, c. 5, only banks incorporated in the Province were permitted to issue notes under the nominal value of $5. The Bank of British North America obtained this right by special Ordinance in 1837, but it appears from a petition addressed by the local directors and managers of the Montreal branch of the Bank to Sir John Colbourne and dated 27th December, 1838 —a few weeks before the charter application, that it was feared this beneficial Ordinance was about to be annulled.

"Your Petitioners have been informed that a measure to annul the privilege thus granted to the Branches of the Company within the Province is at present under the consideration of the proper authorities. . . . The carrying any such measure into effect must necessarily place the Bank of British N. America in a most disadvantageous position in respect to every other banking establishment in this Province inasmuch as the banks incorporated by law are by the Statute before in part recited empowered to issue notes such as above described."

The concluding part makes clear the reliance of the local directors upon the home Government to set the position right:

"Your Petitioners would therefore respectfully pray that your Excellency may be graciously pleased to submit the above-mentioned circumstances to the favourable consideration of

[1] 27th Part of the Patent Roll, 3 Vict. (1840).

H.M.'s Government and to defer the carrying into effect of any measure tending to repeal or disallow the said Ordinance until an opportunity be afforded to the Directors of the Company in London to furnish such information and explanation to H.M.'s Government as may be deemed necessary." [1]

A similar petition was addressed to Sir John Colbourne by the Quebec branch at the same time.

Apart from this handicap, the Bank could not, under its charter, accept deposits in London; the charter declared it established "for the purpose of carrying on the business of a banker in any cities, towns and places within any of the British Colonies or Settlements in North America, or adjacent to British North America," and business in London was therefore excluded [2]—this being referred to as a drawback as late as 1864.[3] In view of these facts, the local banks began to see that competition from the new English institution would perhaps not be so fierce as its size indicated—especially as in the beginning it had even been refused part of the Government account, and the Bank of British North America therefore did not arouse nearly the same resentment as the other Imperial banks did in the early years. There is some evidence of it in the first year, as when the cashier of the Bank of Montreal could write in the following strain, to the Gore Bank, for instance: [4]

"As respects your changing your account, I should much like that this bank should be the general agent of the several incorporated banks in your province; there would then be a bond of union against the encroachments contemplated by Mr. Carter's association which with its widely spread branches and embryo agencies, aims at something very like a monopoly in both our provinces and it will require a combined and strong effort, backed

[1] P.R.O., T.1, 3475–6.

[2] Charters were not usually explicit on this point. London business was expressly forbidden to the Oriental Banking Corporation, but this was exceptional. The Chartered Bank of India, for instance, "is and shall be established for the purpose of carrying on in London under the management of a Court of Directors by means of Banks and Branch Banks, the business of banking in any parts *of our Colonies and Dependencies*, etc., etc. . . ." Yet the Chartered Bank certainly advertises for London deposits.

[3] Cf. Speech of the Chairman, Mr. Robert Carter, at Annual General Meeting, 6/12/1864.

[4] Quoted in Ross, *History of the Canadian Bank of Commerce*, Vol. I.

as they will be by home influence, to withstand the control aimed at by the British N. American Bank. The monopoly above alluded to will, if adverse interests are allowed to operate in either province, be materially advanced and as the three existing banks are in expectation of increasing their respective capitals and this bank has determined also to increase its capital to at least £500,000 and perhaps £750,000, we should then, if we acted together, be able to more than cope with the Lombard Street gentry and be able so to play into each other's hands as to paralyse their kind intentions towards us, the imbeciles, as they suppose, of the two provinces."

But the local banks were too strong and numerous to fear extinction, and the peculiar situation in Canada at that time made the banks less averse to English influence than they otherwise might have been.

Young attributes the silencing of such opposition as there was, to the tact of the visiting director from London, Mr. Robert Carter.

> "Throughout the Colonies there is now spread a tone of good feeling and of confidence towards the Directory which has secured a cordial co-operation in such measures as they deem essential to the working and success of their plans. The liberal instructions given to their agent, Mr. Carter, in his late mission, to soften every prejudice and hostile feeling entertained by the Colonial Capitalists and to be careful to avoid any direct, far less any unfair, interference with the local banks"

were apparently effectively carried out. Then the Canadian banks, it has been suggested,[1] were especially interested in the prospect of having in their midst an institution which in virtue of its British and American connections would be able and willing to supply the Colonies with specie, "which once introduced, was certain before long to be shared by all the banks." Needless to say, this belief was quite unfounded, but it proved useful in softening antagonism.

At the same time, the competition offered by the new bank could not be neglected. According to Young, it was the first bank in Canada to allow interest on current accounts; and its competition in foreign exchange business, particularly London exchange, should have been considerable.

[1] A. Shortt, *op. cit.*, *Journal* of C.B.A., Vol. IX.

"One of the most important results anticipated from the foundation of this establishment is the introduction of a circle of exchanges extending from the Mother Country to each of the Colonies and from each of them again, sending branches or ramifications—lines of commercial communication—to all the rest. It will be a kind of 'grand junction' in exchange" and "from the command of capital which the Bank possesses . . . it will nearly exclude competition and secure in a great measure, this branch of colonial business to itself." [1]

This seems rather sweeping, as the larger Canadian banks had always transacted considerable foreign exchange business before the appearance of the Bank of British North America. From correspondence of the Commissary-General at Quebec with the British Treasury,[2] it appears, for instance, that the Bank of Montreal normally kept £75,000 in London and £50,000 in New York [3] for exchange purposes, and this does not seem an isolated instance.

"The money transactions with the agents of the Bank of Upper Canada" [for instance] "are relatively considered, very large; they amounted in one year to upwards of £1,000,000 sterling, viz:—

| | |
|---|---|
| Remittances to Thos. Wilson & Co. Ldn. from 1st January to 30th June, 1833 . . . | £100,808 |
| To 17th December, 1833 . . . . . | £118,007 |
| Total to London . . . . . | £218,815 |

and the remittances to New York for the same period were, first half-year, £116,087; second ditto, £116,900—total £232,987." [4]

If English connections were as good as this, then the Bank of British North America could not have appeared such a dangerous competitor after all. At any rate, the English bank in the beginning, restricted as it was by its charter and by the effects of the crisis of 1837–8, had not such a clear field before it as some of the other Imperial banks, though

[1] Young, *op. cit.*
[2] Especially letter of 15/11/1834, P.R.O., T.1, 3475–6. See also the Bank's letter of 18/5/1837 to the same official at Quebec, excusing the Bank for a recent suspension on the ground that £100,000 in New York was not available for relief on account of suspensions there also.
[3] Where sterling exchange was often cheaper.
[4] *British Colonial Library*, R. M. Martin, F.S.S., London, 1836.

this was, of course, changed in later years, when an acute observer [1] could write that

"the great Bank of British N. America, which had entered all the provinces in 1837, rendered incalculable benefit to colonial development by liberal administration of the one million pounds sterling which formed its capital; to colonial banking by the conservative character of its management and by the sound banking traditions brought by its officers from the schools of their training, the Scotch and English banks."

The only other Anglo-Canadian chartered bank was the Bank of British Columbia. No other institution of the size or scope of the old Bank of British North America, ever operated in Canada; neither did any limited liability company succeed later in getting a foothold, though some were proposed. The only other *chartered* bank proposal traceable, appeared in 1856 in the form of a Petition to the Crown [2] for the grant of a Royal Charter to the "Chartered Bank of Canada," which was to carry on

"the business of banking and exchange in Your Majesty's Colonies and Settlements in North America and that for the purpose aforesaid they propose to raise a capital of £500,000 sterling divided into 25,000 shares of £20 each with power to increase the capital of the Company to £1,000,000 sterling."

Among the subscribers to the draft charter were several stockbrokers and bankers—e.g. John Masterman and Fred Mildred, of Masterman, Peters & Co., and A. Moore of the English, Scottish and Australian Chartered Bank and the London Joint Stock Bank. The Board of Trade reported provisionally in favour of the project,[3] but its consent was by this time no more than a matter of form, "as this Board has agreed with the Treasury to be guided entirely by its opinion in such cases," and when the Draft was next sent to the Law Officers of the Crown, they reported so decisively against its terms that no charter was granted and the application apparently never renewed.

[1] Breckenridge, *Canadian Banking System*, Chapter ix.

[2] The papers relating to this bank were very kindly obtained for me by Mr. P. L. Edwards, of the Board of Trade. The Board Minutes are more easily accessible in the Departmental Library.

[3] Board Minute 2092 of 14/11/1856.

The Bank of British Columbia [1] was founded at the time of the gold discoveries in British Columbia of 1858. Of its founders, Thomas Mackean, the prime mover, was a director of the London and South African Bank, Eden Colvile, a fellow director, was on the Board of the Hudson Bay Company, Alexander Mackenzie was a director of the Oriental Bank, and representation of London bankers was secured by the nomination of M. R. Smith, of Smith, Payne & Smiths, to the Board. The capital was £250,000 in £20 shares, but this sum was afterwards found too large for the immediate needs of the Bank and the directors had to ask for extra time above the two years allowed by their charter, to get it paid up. Even so, 103,000 applications were received for the 12,500 shares, the Bank being floated when money, according to the famous phrase, " was a drug in Lombard Street."

The Bank did not hope for profits from the gold-mining only as [2]

" the salubrity of the climate and its suitability to the European constitution ; the fitness of the soil for agricultural purposes, the immense mineral wealth of both colonies, and the existence of English laws, are strong inducements to rapid and extensive emigration and are also powerful reasons for at once establishing a bank with large capital, especially as the only existing banking accommodation is inadequate to meet the exigencies of the colonies." [3]

But when the gold rush had subsided, the Bank found itself obliged to seek new business in new territory, and it therefore obtained a supplementary charter in 1864, permitting it to carry on business in North America anywhere West of Lat. 95° W. except in the territories of the Hudson Bay Company. The Bank, however, was not a brilliantly successful one ; its branches in the United States, opened under the terms of the supplementary charter, were not very enthusiastically received in the beginning, in view of the prevailing animosity towards Great Britain during the Civil War,

[1] Ross, *History of the Canadian Bank of Commerce*, has a full account of this institution in Vol. I.

[2] Prospectus, quoted by Ross, p. 256.

[3] The Bank of British North America opened a branch at Victoria in 1859 ; an account of the other, " MacDonald's Bank," the " first bank in Western Canada," appears in *Can. Hist. Review*, December 1926.

and the fierce competition, later, of the new National Banks in the Western United States and of the aggressive Eastern banks now gradually moving westwards in Canada, revealed the difficulties of operating a bank in British Columbia from a Head-office in London. The considerable losses from which the Bank suffered from frauds on the part of the overseas staff led to the inauguration of a very rigid system of regulations by the Board and the employment (almost exclusively) of carefully selected English and Scotch clerks. But "it is very difficult to control people who are 6,000 miles away from the office,"[1] and the attempt to do so did not improve the Bank's ability to withstand competition. It had no London business unrelated to its Canadian and American connections and as supervision from London became more strict, business began to fall off.

The early attempts to start chartered Anglo-Indian banks were so unsuccessful that an account of them has a peculiar interest. Up to 1851, India was one of the very few places in the British Dominions unrepresented by a chartered bank in London—from the Bank of India proposal of 1836 to 1851, there is a long and dismal record of failure, each case illustrating similar obstacles. The first proposal for the incorporation of an Anglo-Indian bank was made in 1836, about the time when other important Empire banks were being projected. The "Bank of India," however, differed from them in several noticeable respects—it was to be of an altogether unprecedented size and scope, and the number of its subscribers was unusually large and influential; the failure of this project to materialize is thus of more than ordinary interest.

The prospectus shows at once the need for a commercial bank of substantial size and reputation, and the great obstacle to the chartering of any such institution by the authorities: "The state of the Money Market in Great

[1] Complaint of the Chairman at the Annual Meeting of 1896.

Britain," says this document, " has led the undersigned to consider the present a very favourable moment for instituting on a very solid foundation, a great Banking Establishment for British India. . . ." The competitors of such a bank would be neither numerous nor powerful—since the private " Agency " banks had been swept away in the failures of the thirties, and none had been established since (to the relief of all concerned). For the rest, there was the Bank of Bengal, the Bank of Madras, both Government banks, the Union Bank of Calcutta, and the Bank of Agra in Bengal. Of the last two, only the Union Bank could offer serious competition, but it was a joint-stock company of small capital and operating without a charter, and as its notes were not received by Government at the Treasuries of the Collectors in the Provinces, its circulation was confined to Calcutta and the vicinity. " The Bank of Bengal is supported in a degree by the capital of the East India Company and managed in part by the official servants of the Bengal Government. . . . It has a Charter from the East India Company terminable upon a year's notice," but " the defect in its constitution is its immediate connection with the Government "—Government should share neither responsibility nor profit but " keep the action of the Bank steady within its prescribed limits." The justification for the present scheme comes from the fact that

" a Bank relying upon its own resources . . . might, adhering strictly to Banking principles, not only transact at a moderate charge the Public business, manage the payment of Interest of the Public Debt, facilitate the receipt of the Revenue and its subsequent diffusion through the various channels of the Public Expenditure, but it might provide the Remittance to Great Britain of the sums required there for the Home Charges of the East India Company and enable the East India Company to act up to the intention of the Legislature, by keeping their Government entirely aloof from that interference with the commerce of India, which the present system of remittance involves."

The reference was presumably to the Act of 1833 " decommercializing " the Company.

The Prospectus was supported by the names of the following London firms :

| | |
|---|---|
| Baring Bros. & Co. | Finlay Hodgson & Co. |
| Chas. Cockerell & Co. | Rickards Little & Co. |
| Fletcher Alexander & Co. | Small Colquhoun & Co. |
| Palmers Mackillop & Co. | Gregson Melville & Co. |
| Morrison Cryder & Co. | Scott Bell & Co. |
| Reid Irving & Co. | Marjoribanks & Ferrers |
| Durant & Co. | Barclay Bros. & Co. |
| Magniac Smiths & Co. | Lyall Bros. & Co. |

—a representative selection of East India and other merchants, bankers and produce brokers. Altogether there were 32 London names, 25 Liverpool names, 27 from Manchester and 12 from other important provincial towns. The Petition for the Charter [1] was signed by 24 individual merchants "connected with the trade to India and China" who

"are of opinion that a Bank of Issue and Deposit in India founded on sound principles, will be attended with advantages to the British Territories in India and to Parties engaged in Commerce between this country and India as well as to the parties who shall become interested in the Bank. Your Petitioners and other merchants engaged in the Trade to India are desirous to establish a Bank in London as the first essential step preliminary to the establishment under Charter from the East India Company of a Bank in Calcutta with branches in other parts of India and within the limits of the Charter granted to the Company by Act of Parliament. . . ."

The capital of the Bank was to be £5,000,000 in £100 shares and its business the receiving of deposits, keeping cash accounts, granting cash credits for a limited time, discounting bills, the issue of notes payable on demand in gold or coin, the advance of money on public and other securities, the purchase and sale of bills of exchange, granting drafts and credits by the Office in London on the branches abroad, etc., etc. Together with the Prospectus, there was printed a bulky document showing the "Heads of the Proposed Plan of the Bank of India." [1] The proprietors were only to be liable for the balance of issued capital not called up. £5,000,000 capital was to be issued at first, £3,500,000 to English subscribers and the rest to capitalists resident in India—this last to be left on tap for two years and then

[1] P.R.O., T.1, 3471.

allocated elsewhere if not taken up, at the discretion of the directors. Provision was also made for the issue of a further £5,000,000 later on, if required, and thus, the Bank of India, if it had ever been floated, would have been the largest British overseas bank projected, up to that time.

There was to be a Chairman, Deputy-Chairman and Court of Directors of 22 members in London, supported by local boards in India, these to be first of all nominated by the Court in London from amongst the local proprietors and ultimately elected locally, subject to the veto of the London directors. Except for the great size of this bank, there was nothing new about its organization, and as to the details of its charter, the promoters were careful not to violate any of the Banking Regulations (of which some of them must have had experience), with the exception of a thinly veiled attempt to evade the prohibition on lending against land.

The documents began to make their leisurely way through the Departments of State. The Court of Directors of the East India Company, with the full concurrence of the India Board, to which in due course the application was referred, wrote [1] that

> "the Court are sensible of the advantages which might be expected to result to India from the Introduction of Capital and from the enlargement of the system of Banking upon sound principles: but as the Bank of Bengal although not connected with the Government in its operations in the manner or to the extent described in the paper which accompanied your letter, has long acted under Charter from the Company, the Court would not think it right to adopt any opinion upon a proposition involving the Interests of that Institution until its Proprietors shall have had an opportunity of offering their observations upon what is proposed nor until the Court shall have ascertained the views of the Indian Government upon the subject."

The whole scheme was therefore referred to the Government in India.

As might be expected, the principal criticism came from the Government members of the Board of the Bengal Bank, one of the most destructive critics of the scheme being Financial Secretary Prinsep, a Government director. The

[1] Letter of East India Co. to Petitioners, 16/6/1836, P.R.O., T.1, 3471.

official objection of the united Board to the proposal was also very decided.[1]

"The project for establishing a general Bank for all the Presidencies of India and for China with a Board of Directors to manage in London the remittance transactions of the East India Company, appears to have been suggested by the desire to find a means of employing profitably the existing superabundant capital of Great Britain and it is apparently expected that through such an Institution exchanges between England, India and China will be kept more steady and that facilities will be given as well to speculators as to the East India Company and its Government in the conduct of remittance operations."

The Board's opinion of the scheme is plain enough already; but the memorandum goes on to say that the Bank of Bengal would have no objection if the new bank confined its operations to this; what is lacking is more precise details of the scheme.[2] On what terms is it proposed to amalgamate with the Bank of Bengal and the other Indian Banks? Strong objection was taken, naturally enough, to the criticism of the Bengal Bank in the prospectus of the new venture, particularly that referring to its close relations with the Government.

"The Bank holds only so much of the Public Debt and discounts so much of the Government Bills in the market as suits its convenience and the Government has never to our knowledge asked or received accommodation or an advance of any kind from the Bank for any purpose of finance."

For all ordinary banking operations, the service of the Bengal Bank could easily be extended to meet any demand of the Government, and the present relations between the Bank and the Government do not make the Bank subservient to the exigencies of Government finance, but, in fact, improve the credit of the Bank without affecting the spirit of its enterprise.

[1] *India Board's Collections*, Vol. 1700, 68490 (*a*), 1837–8.

[2] No amalgamation terms were foreshadowed in the original proposal, it is true, but the Indian Government was denied the opportunity of criticizing such details as were given in the "Heads of the Proposed Plan" because through a clerical oversight, not all the relevant documents were sent to India. Criticism had therefore to be confined to general principles.

"We shall always be ready to enter upon any new line that may be pointed out, if not attended with risk or inconsistent with the restrictions of our Charter. . . . We have before stated to the Governor-General in Council that we were ready to lend our aid towards the extension of banking facilities in the interior whenever the Government might indicate a desire to see this measure acted upon, under the condition that the Government should lend the aid of its officers for the control and direction of the Branch Establishments organized. . . ."

In short, the Bank of Bengal, as at present constituted, is equipped to afford any reasonable service required—

"if new objects be added requiring fresh capital, we doubt not that the Community of the Presidency have the means and would have the desire to make the addition. Although very solicitous therefore to see the capital of England brought to aid the resources and commerce of India we cannot believe that it is wanted for this particular branch of operations. . . . Any institution that may be established in England will best accomplish its ends by association with different institutions of the same kind at the principal marts of the commerce of the East, deriving from each the benefit which its means and credit may enable it to afford and tendering to it reciprocal advantages for the accommodation it may offer."

These criticisms do not appear particularly strong, but in consideration of the circumstances that the commercial interests of the East India Company (which were still *existent* in 1836, if not uppermost) were inextricably dovetailed with the interests of the Government bank, it was asking too much to expect an unbiased opinion on the new scheme from a body of men whose interests might be imperilled by an amalgamation and would certainly suffer from competition. Appended to this general criticism by the whole Board, there were the particular observations of each director. Prinsep, for example, thought that

"banking business is of that description that requires to be managed everywhere by a local direction. Although therefore, there may be benefit in extending the use of banks in India, I do not think that this object could be accomplished either safely or conveniently by one general concern acting under the orders of a Board of direction in England."

The whole project of these London promoters, says

Prinsep, is "visionary and chimerical." These criticisms do not seem to be well supported by experience, either.

Many of the other directors admitted that the Bank of Bengal had not gone far enough and ought to open branches at Bombay and Madras and in the interior, but "it cannot be denied that we have been stimulated to the consideration of these matters by the project of the new bank in England." Only one of the seven directors admitted that

"from the best consideration I can give the subject I am most favourable to the proposal, of course keeping in view the vested interests of the Banks here which might be easily accomplished by their being amalgamated with the proposed 'Bank of India.'"

In addition to these objections, Prinsep, in his official capacity as Financial Secretary to Government, submitted a special Memorandum purporting to deal exhaustively with the whole subject—starting with the first banks in the Temples of Greece. Distances in India were too great and communications too slow and undeveloped to permit a great extension of branch banking in the interior. As for the exchange proposal, "never was any project more absurd than this . . . amongst the objects proposed to be embraced in the wild scheme of the London Exchange. . . . Not 3 million nor 6 million of capital would suffice for such operations."

Lord Auckland, the Governor-General, finally referred the question to Mr. Fullarton, "a gentleman of great experience, formerly connected with the principal private bank of this settlement" and accepted his views. Fullarton, after demonstrating the fitness of the Bank of Bengal to take over any of the business proposed to be done by the London bank, concluded by stating that his observations "are not, on the whole, encouraging to any very extensive innovations on the existing system," and as to the new project he was consequently very sceptical. In regard to the exchange proposal, for instance, "I observe that the projectors of the new 3 million scheme with which we are threatened from England among their other professions of service undertake to relieve the Company from all further concern in regard to

their annual remittances for the home expenditure." This would simply mean that the Bills of the Court of Directors on the Indian Government "would be supplanted by the bills of these new adventurers who would have to account for their realization to the Court I presume at some stipulated rate pocketing always if possible, by the way, a profit on the negotiation." The Bank might certainly have sold the bills to better advantage than the Company.

It is clear, at any rate, that both the local Government and the Government bank were against the new project, and in view of the adverse reports the home Government did nothing further; thus no more was heard of this grandiose scheme, which in practice might have affected profoundly the future course of Indian banking history. No further application was made by the promoters, though it seems fairly clear [1] that no charter would have been granted if negotiations *had* been carried any further.[2]

Six years later, the promoter of a subsequent Anglo-Indian bank, Robert Montgomery Martin, made the following curious comment on the "Bank of India." He refers [3] to it as

> "a project that was put forth in 1836–7 which proposed to absorb all the local banks in India—to collect the whole Government revenues—to disburse the public funds—to pay the interest of the Indian debt, and in fact to take upon itself most of the functions of the State. The project was never intended to be attempted to be brought into operation but was designed for the purpose of preventing any further effort to establish a Bank for our Eastern territories."

Martin further mentions that

[1] See letter of the East India Co. to the "Bank of Asia" promoters, 30/4/1840, in *Public Proceedings connected with the "Bank of Asia,"* R. M. Martin, London, 1842.

[2] Comments on this interesting bank appear in Brunyate's *Account of the Presidency Banks* (Chap. viii), and Findlay Shirras' *Indian Finance and Banking* (Chap. xiii). The pamphlet, *Reasons for the Establishment of a new Bank in India with Answers to the Objections against it*, London, 1836, is worth consulting (Guildhall Library); it refers prophetically to the possibilities of financing cotton cultivation in India so as to free this country from reliance on the United States.

[3] *Bank of Asia—Proceedings*, especially Minute of the India Board Conference, quoted in Appendix A.

"the admission of the projectors of the scheme of 1836—(Messrs. Fletcher, Alexander & Co., Cockerell & Co., Colvin & Co., Baring & Co., etc.)—that they never intended to carry it into effect, but merely put forward an extravagant proposition in order to prevent any Bank which should diminish their exchange business being established, was fully detailed. . . . The President" [of the India Board] "said he was surprised to hear of the conduct of the projectors of the proposed *Bank of India* in 1836; he stated that the Government thought the projectors were in earnest and really desirous of seeing a bank established in London for our vast and important territories in India; that their conduct was highly discreditable and that they had deceived H.M. Government who had transmitted their proposition to the Government of India."

This is perhaps partly true; it is certainly suggestive. The next project was the "Bank of Asia" of 1840, whose constitution was modelled on that of the Colonial Bank, with single liability, but whose "objects" resemble the "Heads of the Proposed Plan" of the Bank of India. The petition to the Queen [1] for the grant of a charter, included the following amongst the signatories:

Sir Gore Ouseley, Bt.
Wm. Jardine, China merchant
Wm. Newnham, Bombay Civil Service
C. J. Middleton, Bengal Civil Service
J. Cockburn, East India merchant
C. Norris, Bombay Civil Service
A. A. Goldsmid, Bullion broker
C. E. Layard, Ceylon Civil Service
Fred. Hankey, Col., G.C.M.G. (late Secretary to Government at Malta & Ceylon)
J. B. East, M.P.
H. G. A. Taylor, Major-General, Madras Army
Joseph Hoare, Banker, Lombard Street
C. Buller, Jr., M.P.
H. D. Robertson, Colonel, Bombay Army
J. N. Campbell (late Minister in Persia)
John Chapman, Ship Owner
Thos. Weeding, East India merchant
Samuel Prior, Mediterranean merchant
C. Elliott, Bengal Civil Service
Geo. Money, late Registrar of the Supreme Court, Calcutta
J. B. Montefiore, Australasian merchant
A. E. M'Donnell, Madras Civil Service

The credit for the initial inspiration of the scheme is,

[1] P.R.O., T.1, 3471.

however, claimed by Robert Montgomery Martin, who, on his own confession, also initiated the Union Bank of Calcutta [1] and the Bank of British North America. Martin himself says

"the formation of a Bank in London for the British possessions in India had long occupied my thoughts; the other colonial banks in the Metropolis had their origin partly in my suggestions and labours and in the instance of the Bank of British North America, I not only suggested but prepared the prospectus and preliminary proceedings. By means of these colonial banks I wished to strengthen the connection between the Colonies and the Parent State—to create a monied influence in England interested in and identified with the progress and prosperity of the Colonies—to direct unemployed wealth to the vast and rich field of the British possessions rather than it should be sunk and utterly lost in foreign loans and S. American mining speculations. I wished to see the exchanges steadied and equalised as much as possible between the different parts of the British Empire—to prevent the necessity for exporting specie to or from the Colonies—and by separating the function of banker and merchant to induce the latter to direct and employ all his means, skill and energies to the advancement of the commerce between the Mother Country and the distant dependency, thus strengthening their mutual relations and binding them closely together by the strong feelings of reciprocal friendly interests." [2]

No objection was taken to the old "Bank of India" proposal by the great East India Houses because they themselves fathered the scheme in great measure; the "Bank of India" was doomed firstly by the opposition of the Bank of Bengal, and secondly by the half-hearted attitude of its supporters. Although the new project had to contend, to a

[1] "There is an establishment termed the Union Bank of Calcutta, suggested and aided in its formation by the author of this work."—*Statistics of the Colonies of the British Empire*—(India). By R. M. Martin, London, 1839. This early Imperialist was a statistician and historical writer (1803–68). About 1820 he went to Ceylon and thence to the Cape "where he joined the expedition of H.M.S. *Leven* and *Barracouta* to Delagoa Bay in a temporary capacity as assistant surgeon, serving as such and as botanist and naturalist on the coasts of Africa, Madagascar and the S.E. Islands." From there he travelled all over the Empire and finally returned to India about 1823, his travels thus forming an excellent preparation for his voluminous works on the *History of the British Colonies* and *Statistics of the British Colonies*, etc. He became a member of the Court of the East India Company and Treasurer of Hongkong (*Dict. Nat. Biography*).

[2] *Bank of Asia—Proceedings*, R. M. Martin.

lesser extent, with both of these difficulties, yet the chief reason for *its* failure was the opposition of the Agency Houses, who had little part in it and who feared that its competition would injure their profits.

The Agency Houses had now recovered from the disastrous series of failures of 1829–32 [1] and were firmly allied to the East India Company. Twelve of the directors of the Company were connected with Agency Houses through business or marriage relationships and six of these held shares in the existing Government banks.[2] These rich and powerful firms did a thriving and profitable exchange business, and those which were fortunate in having representatives on the East India Company's Board could get early information about alterations in exchange rates, which they could always turn to good account. It is questionable whether their functions ought ever to have included exchange operations, but their opposition to the "Bank of Asia" is understandable on this account.

The Bank, although similar to the "Bank of India," was a far less ambitious project; a letter to the Board of Trade [3] outlines the proposals of the promoters:

"Convinced that one of the most efficient means for advancing the social improvement and extending the commercial enterprise of our valuable territories in India, is to be found in the employment of British capital, we beg to inform you that we purpose forming arrangements for the establishment of a bank in London for transacting the monetary operations between Great Britain and our possessions in the East Indies, on principles similar to those banks which have been so successfully established for the W. Indian, Australian and North American Colonies and which have received charters of incorporation from H.M. Government. . . ."

The capital of the concern was to be £2,000,000, with

[1] These events should have taught them a very obvious lesson. Palmers failed for £2,600,000, Alexanders for £3,440,000, Macks for £2,470,000, Fergusons for £3,260,000, Colvin & Co. for £1,210,000, and Cruttenden & Co. for £1,350,000. These failures were due to attempts to combine a banking and a mercantile business.

[2] Cooke, *op. cit.*, mentions Mr. Crawford of Colvin & Co., and Sir George Larpent, of Cockerell & Co., in this connection.

[3] Dated 27/2/1840, quoted in *Bank of Asia Correspondence*, P.P., 1843, Vol. XXXV. This, together with the *Proceedings*, gives most of the relevant documents.

"single" liability, three-quarters of this amount to be subscribed and one-quarter to be paid up before the commencement of business.

> "The Bank to be a Bank of Issue as well as of Deposit and its operations to consist of dealing in bullion, money, and bills of exchange, lending money upon commercial paper, or on Government securities, and in such other lawful ways and means as are usually practised among bankers."

The sphere of operations was to be India, Colombo, and the Eastern hemisphere generally.

This bank, therefore, was of a noticeably wider geographical scope than the "Bank of India," but far less ambitious in its general activities; it did not undertake to provide a complete home remittance service for the East India Company, nor did it make the mistake of proposing to manage the Revenue or the Public Debt services. It should consequently have been assured of more favourable treatment, at least in the early stages, at the hands of an impartial authority.

The formal petition was submitted to the Crown and a prospectus was issued setting forth the success which had attended the chartered banks in other parts of the Empire, and the brilliant prospects which awaited this one. 8,000 of the 20,000 £100 shares were subscribed for in a few days. Meantime, details of the scheme had filtered through to the East India Company, in whose memory the old "Bank of India" was still fresh.[1] At once the Directors wrote to remind the India Board that "a proposal was some time since submitted for establishing an institution to be called the 'Bank of India,' resembling in most respects the 'Bank of Asia.'" This project was at that time referred to the Government in India, and it is interesting to note that

> "upon the receipt of a reply to that reference, it was determined without delay to establish *a chartered bank at Bombay*. . . . The projectors of the 'Bank of India' have since abstained from pressing their application, but they have never withdrawn it,

[1] Letter of the Company to the India Board, 30/4/1840, *Proceedings*, Appendix A, p. 10.

and if it should be revived, their claim will certainly have a prior right to consideration."

The Company did not see why a charter was necessary at all in the present case, forgetting that a charter conferring limited liability was a great attraction to capitalists. This attraction, the limited liability clause, the Company, in fact, held to be dangerous, particularly as the Bank was to issue notes; in any case, no extension of paper currency in India was called for. In general, it was yet too early to judge of the expediency of chartering banks in India as the Government banks had not been in operation long enough to accumulate sufficient experience to be a trustworthy guide in these matters; these banks, at any rate, were not permitted to engage in exchange operations and in view of this and the fact that "the necessity of any institution for that purpose is not apparent," the Company would certainly not think of permitting the "Bank of Asia" to undertake any of this forbidden business.

With all these criticisms, which seem feeble enough, the India Board agreed, especially as regards the prohibition of exchange business, which

"should be excepted, with a view to a proper restriction of its" [the bank's] "risks, to the preservation of the power of easily converting its securities into cash and to the necessity of its not being involved in trading in articles of Merchandise, which would almost inevitably arise out of a dealing in such Bills." [1]

At this juncture, the Provisional Board of Directors of the Bank dissolved and returned all subscriptions (this is what encouraged the Bank of Ceylon to press for *its* Charter at this time), but Martin and some others who were still interested enough in the Bank to endeavour to float it with a much mutilated charter, re-formed a Board of Directors under the chairmanship of William Jardine, and again applied for a charter, this time without the power of note issue. The new bank was to have a capital of £1,000,000; "its operations will be those of a Bank of Exchange, Discount and Deposit, for which the commerce of India and the

[1] Letter to Board of Trade, 15/6/1840, quoted on p. 5 of *Bank of Asia Correspondence*.

Eastern hemisphere affords ample scope."[1] But the East India Company still insisted[2]

> "that its business be confined to the receipt of Deposits, the Discount of Bills, and general banking operations excluding that of Issue . . . that its transactions be restricted to the Countries and Colonies lying within the recognized limits of the Company's Charter; and that they do not consequently embrace traffic in Bills of Exchange between these countries and the United Kingdom."

Against this view the directors proceeded to protest to a number of notables (Lord John Russell amongst them) and most of all to the President of the India Board, Sir John Hobhouse, whose influence brought to bear upon the directors of the East India Company might have converted them. "Had British India possessed a Bank in London for the remittance of money," wrote Martin to this personage, "instead of her exchanges being in the hands of traders in indigo, cotton, sugar, etc., who speculated with the funds entrusted with them," the disastrous failures of the Agency Houses would not have occurred.

> "In every country where merchants become bankers, they are invariably ruined in a greater or less space of time; the great East India Houses in London and Calcutta, and the great American Houses in London and New York are in melancholy proof of this assertion. With these obvious facts before them, we are at a loss to know what the East India Company mean when they propose to prevent the Bank of Asia from remitting money between India and England, lest it may lead to 'incautious and injudicious banking operations.'"

As the operations of the new bank proposed to embrace the whole of the Eastern hemisphere, it was eventually suggested that the Bank should have two charters, one from the East India Company for its own territories, this to exclude exchange dealing, and the other from the Board of Trade, for Australasia, China, and the remaining territories. The draft charter submitted to the Company in accordance

[1] Prospectus of the second "Bank of Asia," in *Proceedings*, Appendix A, p. xxii.

[2] Letter to the promoters of 16/9/1840, *Proceedings*, Appendix A, p. xxiii.

with this arrangement was, however, altered at East India House to include in the veto on exchange business, " China and the whole Eastern hemisphere from the Cape of Good Hope (including also Australasia) to the Straits of Magellan as territories within the jurisdiction of the East India Company " ![1] The worst was yet to come. At the last moment the Board of Trade decided that [2] " they however are not disposed to recommend the grant of such Charter unless the Commissioners should have strong grounds for believing themselves in possession of the views entertained by the Government of India on the subject." As the Commissioners of the India Board felt they had no such grounds, the whole project, to the intense chagrin of the promoters, was referred to Lord Auckland in India.

It is difficult to avoid the impression that the East India Company was deliberately obstructionist in this instance. Obviously the reference to India ought to have been made, as in the case of the " Bank of India," at the beginning of the negotiations. The reason for the altered procedure five years later does not appear.

The reference to India produced conflicting opinions. Prinsep favoured remittance banks but not in combination with the power of local note issue, as this would be dangerous.[3] " Such a scheme of paper credit might be built up into a fabric of too many stories for the material and foundation and so produce by its sudden dissolution or ruin, too much confusion to be hazarded for the sake of the experiment." Even if the Government sanction a charter for a remittance bank, it should be satisfied that there is, and will be permanently, a local body of shareholders and a local capital not liable to be withdrawn, as well as local responsible directors also, besides those nominated by the parent bank " who are in effect mere agents." The Governor-General agreed with this, but thought it very doubtful whether the advantages to be gained by such a charter would be commensurate with the restrictions which it would impose.[4]

[1] *Proceedings*, p. 15.
[2] Letter to India Board of 16/1/1841, *Bank of Asia Correspondence*.
[3] Minute of 7/8/1841, quoted in *Bank of Asia Correspondence*.
[4] Minute of 14/4/1841, quoted in *Bank of Asia Correspondence*.

The Hon. W. W. Bird (member of Council) favoured neither note issue privileges nor remittance business—" both privileges from extreme liability to abuse, are obviously inadmissible," and " judging from the large amount of capital invested in Company's paper by the banks of Bengal and Bombay, I doubt whether there is at present much room in India for extended banking operations."

The receipt of these conflicting and, in the main, unfavourable opinions in London (they were not so unfavourable as the criticisms of the " Bank of India ") naturally did not strengthen the Bank's case with the Company. Commenting upon Prinsep's suggestion,[1] the Company said that if local boards were insisted upon, the practical result would be the establishment of two banks, one in India and one in England, " connected together to a certain extent by a common management but in a manner that would rather impede than facilitate their mutual interests. . . . The Court are also of opinion that the circumstances of India do not at present indicate any necessity for additional banking accommodation." It is, therefore, a matter of no surprise that the Board of Trade, noting that the Government of India was not unanimous and that the Court, supported by the India Board, considered that no additional banking accommodation was necessary in India, " would not feel justified unless upon the strongest grounds of public advantage and necessity, which do not appear to exist in this case, in undertaking to recommend the grant of a charter to the Bank of Asia," [2] and this decision was communicated to the Bank.

In the meantime, Martin had quarrelled with Jardine, whose private interests were said to be in conflict with those of the Bank,[3] and resigned. The Board of Trade having declined to give the Bank a charter, the directors decided to apply for a private Act enabling the Bank to sue in the

[1] Letter to Board of Control, 16/12/1841, quoted in *Bank of Asia Correspondence*.

[2] Letter to Board of Control, 11/2/1842, quoted in *Bank of Asia Correspondence*.

[3] Jardine shortly after this became a partner in an important Agency House, Smith Magniac & Co. of Lombard Street. It seems likely enough that his interest in the bank should therefore have become lukewarm at the end.

names of its officers. At a general meeting of the shareholders in March 1842, it was reported that, so far, 1,392 shares had been taken up in the United Kingdom and 5,283 in various parts of India, "but that from the great difficulties which they had to encounter in their efforts to obtain a charter and the unavoidable delay in arriving at a satisfactory conclusion, alarm was created in the minds of the subscribers in India and their subscriptions were returned."[1] In consideration of this and of the dissensions on the Provisional Board, this promising scheme also was abandoned. Martin's final attempt, the "East India Bank" of 1842, formed with a capital of £250,000 to conduct exchange business as a co-partnership, met with even less success and never got beyond the prospectus stage.

The first Anglo-Indian commercial bank to receive a Royal Charter was the Oriental Banking Corporation, which originated from a co-partnership called the "Bank of Western India," founded at Bombay in 1842 to supply the want of a bank for the conduct of exchange and other legitimate banking business from which the Bank of Bombay was excluded by its charter. Branches were established at Colombo, Calcutta, Hongkong and Singapore, and in 1845 the Bank changed its name to the "Oriental Bank" and moved its Head-office from Bombay to London. Four years later it took over the Bank of Ceylon.

The Bank of Ceylon had been started at Colombo in 1841 with a capital of £250,000, subscribed chiefly by London firms connected with Ceylon, for the purpose of fostering the cultivation of coffee. It consequently was negotiating for its charter of incorporation—giving full powers of issue and remittance—at the same time as the "Bank of Asia" negotiations were proceeding. The sphere of operations of the Bank of Ceylon, however, were clearly outside the jurisdiction of the East India Company altogether, and this bank had not to fear the formidable opposition of this powerful interest in the negotiations. The petition[2] (signed by Oliver Farrer, T. A. Hankey and J. A. Hankey, amongst others) states that in spite of the increasing trade of the island and

[1] Cooke, *op. cit.*

[2] P.R.O., T.1, 3478.

the progressive cultivation of its valuable natural products, there is no bank whatever, public or private, in existence, and it is this great want which the promoters propose to satisfy, the Bank of Ceylon to be incorporated by Royal Charter for the purpose of "advancing money on securities, granting cash credits, receiving deposits, issuing notes and other banking business connected with money transactions."

This is another case of a "planters' bank" being constructed with indifferent success, on the Scotch model. By 1849 the Bank was in difficulties owing to a loss of £60,000 in the coffee-planting crisis, and it was absorbed by the Oriental Bank (which desired charter privileges), the amalgamation being consummated two years later by the grant of a Royal Charter for the combined institution.

The charter constituted the "Oriental Banking Corporation" a Bank of Issue in Ceylon and China, and empowered it to open agencies for *exchange*, deposit and *remittance* business anywhere to the East of the Cape of Good Hope. The capital was £600,000 and the charter contained the usual "double liability" clause. It is worthy of note that the Bank was never entitled to do a general banking business in London. "The general management of the said Company shall be vested in a Court of Directors resident in London who shall also there carry on the business of exchange, deposit and remittance only and not the business of banking." This was probably intended to reassure the London banks that the new corporation was strictly non-competitive, except for deposits, but it is doubtful whether it ever had any restraining effect in practice. What is very curious is that this backstairs method of obtaining an entry into India as an incorporated "remittance" bank should not have aroused the suspicions and the active interference of the East India Company in view of the divided opinion of the Indian Government on the subject in previous instances. A copy of the charter, together with a notice of the new bank's intention to open an agency at Calcutta in January 1852, was actually forwarded by the Oriental Bank to the Company, but this time, the Company, writing to India, thought that this "requires no remark in the present dispatch.

Hereafter we may have occasion to advert to the subject."[1] There is no further mention of it at all, however, until the question arose of chartering further "Exchange" Banks.

The charter made a great difference to the Company's business.

"The advantages conferred by the Royal Charter of Incorporation lately obtained for the shareholders cannot be too highly estimated. These are already apparent by the increased confidence evinced in the Company, in the facilities afforded by the Charter in negotiations with public bodies and with government and in the greatly enhanced value of the stock." [2]

From this time the Bank expanded rapidly, until it assumed a predominant position amongst the Eastern Exchange Banks of the time. Branches (under supplementary charters) were opened at the Mauritius and in South Africa, agencies at Melbourne and Sydney, and even two experimental branches in New Zealand were opened for a short time. The Oriental Bank, moreover, early started the practice of attracting Scotch deposits (by opening a branch in Edinburgh), "which they succeed well in doing, as their rates are generally 2 to 3½ per cent. above what the Scotch banks can afford to allow." [3]

After this there came two other Exchange Banks of first-class importance—the Chartered Bank of India, Australia and China, and the Chartered Bank of Asia (afterwards the Mercantile Bank of India), both incorporated in 1853, apparently a most propitious time, since the two largest Indian banks—the Bank of Bengal and the Oriental Banking Corporation—were paying dividends of 12 per cent. per annum and the shares of each stood at 50 per cent. premium. The first of the new banks was formed, as its name suggests, for the purpose of financing Eastern and Australian trade, and the prospectus draws particular attention to the possibilities of the trade between India and Australia.

"It is certain that in proportion as the population increases, must the trade between Australia and these Eastern markets increase also, because the commodities of which it is composed

[1] *India and Bengal Dispatches*, Vol. LXXXI, pp. 693–4.
[2] Annual Report of 1851. [3] Cooke, *op. cit.*

must be classed as common necessaries of life and which from permanent natural causes cannot be furnished on terms so favourable from any other quarter of the globe."

But in addition, "the recent gold discoveries must lead to an entirely new traffic upon a scale of great magnitude." The East always has been, and still is, the greatest market for the bullion produced in America and it is therefore quite certain that a very large proportion of the gold produced in Australia will find its way direct to India. In spite of all this, banking accommodation has really been diminished, by the Agency failures in the crisis of 1847, the Agency Houses still including banking in their ordinary business; and the East India Company, which used to make advances in India against Bills of Lading to the extent of £2,000,000 a year, has now entirely ceased this practice within the last two years, on public grounds. The new bank, on the showing of the prospectus, ought therefore to have an excellent scope. "Bearing in mind the very high rate of interest which prevails in the East and the very lucrative nature of the Exchange business . . . a very large annual dividend may be looked for with certainty."

The petition for the charter [1] was signed by James Wilson, late of the India Board, founder of the *Economist* and one of India's ablest Finance Members, Robert Lowe, M.P., late member of the Legislative Assembly at Sydney, and other members of Parliament, shipowners, East India and Australian merchants, both in London and the provinces. The Petitioners "are desirous to establish a bank in London for the purpose of carrying on Banking business in India and Australia and the other British possessions eastward of the Cape and in China and the Eastern Archipelago," but they "believe that it will be utterly impossible to raise the required capital unless there be a limited responsibility."

The Company wished naturally to have the power of undertaking exchange business, but in addition they wanted the privilege of note-issue, and when the application was referred to the India Board and thence to the East India

[1] I am indebted to Mr. Edwards of the Board of Trade for permission to consult most of the Chartered Bank of India papers.

Company, the directors of the latter this time expressed an opinion [1] unmistakably comparable to the earlier beliefs as to the fitness of the Presidency Banks to fulfil all India's banking needs.

"The Board are aware that the power of chartering banks in India has been confided by the Legislature to the authorities administering the Government of India." [*But there is no trace of the Oriental Banking Corporation's draft charter having been submitted to the Company.*] "Under the Charters of the Banks of Bengal, Bombay and Madras, authority is given to them to issue notes to the aggregate amount of Five Crores of Rupees but the Court having adverted to the last accounts received, find that notes to the amount only of Rs. 2,04,27,831 were in circulation."

This, according to the Company, is sufficient to convince anyone that no more note-issuing banks are required. Further, exchange dealing is expressly permitted to the proposed bank, whereas it is forbidden to the Government banks.

"Without entering upon the question how far the dealing in distant exchange operations is compatible with legitimate banking, the Court are decidedly and very strongly of opinion that with due regard to the interests of the Indian community it would be highly inexpedient to confer a Charter with limited liability upon any banking company which may design to be engaged in the business of Exchange. It needs no argument to prove that the bank which proposes to issue notes and at the same time to engage in business of a speculative character requires every check which can be placed upon its proceedings with a view of ensuring the security of its customers and to allow the partners in such a scheme the privilege of limited liability would in the Court's opinion be tantamount to removing the main check against improper and reckless management."

In regard to the financial operations of the Government of India also, "it would not be desirable that their remittance transactions should be interfered with by the speculative operations of banks invested with chartered privileges."

It is obvious that the attitude of the East India Company had changed but little since the question of the "Bank of Asia" charter was raised in 1841; and it seems likely that

[1] Letter from East India Co. to India Board, 11/11/1852, Board of Trade Collection.

the new bank would have shared the fate of the old one, had the circumstances been the same in other respects. By this time, however, the Oriental Bank was operating a flourishing exchange business in India under *Imperial* charter, and the Chartered Bank of India could surely ask with some justification to be put on a footing of equality with this institution. This is what actually happened. The new bank issued a statement [1] from South Sea House testifying that "it was known to every one acquainted with the history of banking how successful the East India Company and the large East India Houses had hitherto been in resisting the establishment at home of any chartered banks in connection with India." The East India Company, continues the statement, not only wanted the charter restricted to the privileges conferred by that of the Oriental Banking Corporation (that is, exchange business but no power of note issue) but even questioned the validity of the Oriental Bank's Charter! This was quite true; the East India Company considered that the Act 47 Geo. III, c. 68, Sec. 8, which empowered them to incorporate banks to operate in India, formed by itself a limitation on the Royal prerogative.

> "Upon the abstract question of the Royal prerogative, the Court think it right to call to the notice of the Lords of H.M. Treasury that . . . a grave question has been considered to exist whether the Prerogative of the Crown to grant Charters and exercise analagous powers is not in suspense, as respects India."

In the case of the "Bank of Asia," the Government had declined to sanction the scheme without the concurrence of the Indian authorities and

> "the Court still feel assured that it could not have been the intention of H.M. Government in granting a Charter to the Oriental Bank, to make it apply to places within the Government of the East India Company and that too without any consultation with either the Board or the Court. . . . It could never, the Court are convinced, have been seriously contemplated to concede to the Oriental Bank a monopoly of interference with the business of exchange between India and this country." [2]

[1] Dated 14/3/1854, Board of Trade Collection.
[2] Letter from East India Company to India Board, 9/12/1852, Vol. XXI, p. 296, I.O. Library.

The optimistic view taken by the Directors of the Oriental Bank as to the privileges conferred by their charter must surely be quite wrong. The alarm taken by the Company at this turn of events was obviously well-founded. If the Oriental Bank was really empowered to "open agencies for exchange, deposit and remittance business anywhere to the East of the Cape of Good Hope," as its charter said it was, then these new privileges had been conceded in a most unprecedented manner, without reference to the Indian authorities at all, the Corporation having obtained its Charter not from the East India Company, but from the Imperial Government. Moreover, once the permission to undertake exchange business—so jealously reserved in previous cases—had been given to one bank, it would be folly to allow this institution a monopoly, and far wiser to extend it at request, to any similarly incorporated body.

The Company heard with pained surprise the view of H.M. Attorney and Solicitor-General that the Oriental Bank "is authorized to establish agencies for carrying on the business of Exchange, Deposit and Remittance, as connected with each other and distinguished from the business of general banking within the territories under the Government of the East India Company."

> "The Court direct me in the first place to express their regret that it is not considered practicable to limit the powers of the Oriental Bank. . . . The Court continue to think that the Charter does not extend to India and they are of opinion that the distinction drawn by the Attorney and Solicitor General between their power as Exchangers and as Bankers is one which cannot be sustained. . . . The perpetuation however of a privileged monopoly of the British Indian exchange in the hands of the Oriental Bank is likely to prove so injurious that the Court concur with the Board in considering that such a monopoly ought not to be allowed to exist;"[1]

and the new banks (the Chartered Banks of India and of Asia, whose applications were considered together) ought therefore to be incorporated without further delay.

The long awaited entry of the first Anglo-Indian Exchange Banks into India was therefore due to an accident—a sudden

[1] Letter to India Board, 11/8/1853, Vol. XXI, p. 431.

and unexpected alteration in Government procedure. It must be a subject for cynical reflection to the older Exchange Banks now, conscious of their present power and influence, that on their foundation neither the East India Company nor the Indian Government wanted them and the Company condemned their business as "speculative" and liable to "improper and reckless management."

The Chartered Bank of India was incorporated with a nominal capital of £644,000, and empowered

> "to establish a Bank in London for the purpose of carrying on a Banking business in Australia, New Zealand, and the other British colonies Eastward of the Cape and in China and in the Eastern Archipelago and of establishing Agencies in the chief ports of India and other places Eastward of the Cape in which no banks or branch banks might be established by virtue of this Charter . . ."

(that is, no note-issuing banks). But before it could avail itself of these wide powers, the Bank nearly came to grief at home. In 1856 a petition was received at the Board of Trade signed by the directors and asking permission to reduce the Bank's capital to £400,000; the whole capital had been subscribed for, but a large number of shareholders wanted to renounce their membership of the corporation (and liquidate the concern). The petition was, of course, disallowed by the Treasury in consultation with the Board [1] mainly because "it is very inexpedient on general principles that Royal Charters should be altered without very strong grounds," but the incident suggests that the subsequent position of the directors could not have been a very easy one, for the first year or two. There were other troubles too. In some ways, the Bank was fortunate in just missing the Mutiny (Officers to open branches at Calcutta and Bombay were recorded as leaving for India in the Statement of 1858), but the aftermath is reflected in the first few dividends—an average of 5 per cent. in the first five years. Moreover, English banks were not popular in Australasia in the fifties, and the Bank was consequently kept out of the region in which its operations were originally intended to be of so

[1] Letter to Board of Trade, 19/4/1856, Board of Trade Collection.

much benefit to the public and so productive of profit to the shareholders.

The Chartered Bank of Asia, the one other successful instance amongst the many attempts to establish Anglo-Indian banks at this time, was incorporated at the same time as the Chartered Bank of India with a nominal capital of £1,000,000, and negotiated for amalgamation with the Mercantile Bank of India, London and China, established in Bombay as a co-partnership. The amalgamation, however, could not be satisfactorily arranged under the terms of the existing charter, and as a result, the London bank had to be liquidated and the combined concern reincorporated under the title of the "Chartered Mercantile Bank of India, London and China" with powers similar to those of the Oriental Bank. Donald Larnach, the *doyen* of Anglo-Australian banking, director of the Bank of New South Wales and of the London Joint Stock Bank, was one of the founders of this institution, which came to rival the Oriental Bank in the size of its business and the scope of its operations. It is, perhaps, the outstanding example of a bank which suffered greatly under the limitations imposed by its charter. These were found so serious in 1892 when the Bank got into difficulties that the shareholders were obliged to relinquish the charter because it gave them no power to write down their capital, or to create preference shares in order to attract new money.

In South Africa, the early record of the Imperial banks is again nothing but a series of vain attempts to obtain a charter in face of the opposition of a Government interested in its own institutions. Notable as being amongst the first to make such efforts, is the Bank of Australasia, to whose application some reference has already been made, but the first in the field with an Imperial Bank project, was Mr. J. B. Ebden, a merchant at the Cape.

The position then was that all banking services in the

Colony were in the hands of two joint State banks, the Lombard Bank, making loans on mortgage, and the Discount Bank, receiving deposits and discounting negotiable securities. Almost all the capital of the Lombard Bank was "frozen" because repayment of the principal of loans of this type was very slow, and the function of the Bank, by about 1830, was practically confined to collecting interest where it could. The president and directors of the Banks were appointed and paid by the Government, which sometimes borrowed the deposits in aid of revenue. In 1830, the interest received on loans was £6,653, the profit on discounts £3,287, and the expenses of management £2,081, leaving a net profit of £7,849. The banks were small, unable to expand, and altogether inadequate for the needs of the Colony.

Ebden's first plan [1] was to found a bank which should help to redeem the outstanding Government paper money, but

"having since understood that the Lords of H.M. Treasury to whom his Memorial had been referred were about to take some steps with regard to the redemption of the currency, Your Memorialist conceiving it to be an indispensable proposition that the Commercial and Agricultural Interests of the Colony would be essentially promoted by the introduction of capital by means of a Banking Establishment and further considering that such a measure would prevent the recurrence of the evil to which the Colony has long been exposed with regard to its currency and also that it might be made subservient and useful to Government . . . humbly prays that H.M. may be graciously pleased to sanction by his Royal Charter the formation of a Joint Stock Banking Company at the Cape of Good Hope." [2]

Ebden unfortunately asked for the grant of monopoly privileges to his bank, as well as limited liability, and the Lords of the Treasury were consequently acting upon a well-established principle when they wrote [3] that "their Lordships do not think they should be warranted in recom-

[1] Letter to J. C. Herries at the Treasury, 24/2/1825, P.R.O., T.1, 3477.
[2] Memorial to Earl Bathurst, dated 16/2/1825, quoted in *Copies of Correspondence, etc., relative to the Currency of the Cape of Good Hope and the Establishment of a Bank in that Colony*, J. B. Ebden, Cape Town, 1825. C.O. Library.
[3] Letter to Ebden, 14/3/1825, Ebden's *Correspondence.*

mending to H.M. to grant any exclusive privileges to such a Bank and still less to grant any exemption from individual responsibility." This in spite of Ebden's contention that the Cape was in a special position, that

> "however monopolies in a general sense may be deprecated, the peculiar situation of the Cape in reference to its finances, its distance from the Mother Country—the want of capital to which it has been so long exposed—with many other cirumstances, might be adduced to show the necessity of the privileges of exemption sought for as the best and most effectual means of re-establishing public and private credit in that Colony." [1]

Ebden's plan apparently involved a bank at the Cape directed from *London*, since at the time these negotiations were proceeding, he convened a meeting of supporters (amongst whom were two members of Parliament and several East India merchants) "for the purpose of taking into consideration a plan for the establishment of a Joint Stock Banking Company at the Cape of Good Hope," and prepared a prospectus of the "Cape of Good Hope Bank," to be floated with a capital of £600,000 with "single liability." The business and affairs of the Company were to be managed by a Board in London and by a Committee of Management at the Cape, the Committee of Management at the Cape to be appointed by and removable at the pleasure of the Board in London. The Treasury objections to chartering the Bank, however, finally reduced Ebden and his supporters to an attempt to get a private Bill through the House of Commons enabling the Company to sue in the names of its officials. This also failed, and Ebden returned to the Cape to try and form a *local* bank there. Even at the Cape, his first schemes produced no results and not until the idea of a local bank was resuscitated in 1836 did he meet with any measure of success.

By the time Ebden had revived his local bank project in 1836, however, a rival had appeared on the scene in the shape of the Bank of Australasia, whose directors were making strenuous efforts to get their charter extended to

[1] Letter of 21/3/1825 to J. C. Herries at the Treasury, Ebden's *Correspondence*.

South Africa. The "Bank of South Africa" was then in process of formation and the directors, scenting the real nature of the objections entertained by the Government to their project, wrote to the Colonial Office asking for figures relating to the profits of the Discount Bank. The Colonial Secretary replied that

"As this application has been made with a view to enable the proposed Banking Company to determine the amount of the Indemnity which they should offer against the loss of Revenue which would be sustained by their successful competition, Lord Glenelg has no difficulty in subjoining statements . . . of net profits,"[1]

but in sending copies of the correspondence to the Treasury,

"Lord Glenelg thinks it right to apprise the Lords of the Treasury that he has conclusive reasons for believing that in the event of the failure of the application for a Charter, it is the intention of the parties concerned to engage in the business of banking in the Cape of Good Hope as private traders, disputing the existence of any law which could restrain such a proceeding. It would therefore be imprudent to forget that if in this endeavour they should be successful, the revenues of the Colony might suddenly be subjected to the most disastrous pressure at a moment when hostilities with the Kaffir tribes have greatly increased the Public expenditure."[2]

All this time, the Treasury had been trying ineffectually to convert Lord Glenelg to the idea of a chartered "Bank of South Africa." To his original contention that the currency of the Colony was on a sound and satisfactory basis and that it would be inexpedient and dangerous to disturb it; and that the establishment of a new Bank of Issue would bring no accession of productive capital to the Colony and would in all probability be objectionable to the inhabitants, the Treasury had promptly minuted a reply protesting that there was no provision whatever for the redemption of the Government notes outstanding

"except that afforded at the expense of this country by the option given to the holders of them under the Minute of this

[1] Letter of Colonial Office to "Bank of South Africa," 13/5/1836, P.R.O., T.1, 3477.

[2] Letter of Colonial Office to Treasury, 27/5/1836, P.R.O., T.1, 3477.

Board of 11th February, 1825 [1] to exchange them for Government Bills at a fixed rate by which arrangement alone the paper has been preserved since the period at which it took effect from further depreciation and its credit is now maintained; and that my Lords cannot by any means consider a currency constituted like that now in question to rest on a sound and satisfactory basis unless the resources of the Colony can furnish the means of redeeming the notes by payment in specie on demand." [2]

Although aware that the Government depends to some extent on the revenue from its banks,

"my Lords do not conceive that this consideration would warrant such a course of proceeding as should deprive the inhabitants of the Eastern District of that very material accommodation and assistance which a well-conducted Banking Establishment in that part of the Colony would unquestionably afford them."

Another of their criticisms of the revenue argument had been to call Lord Glenelg's attention to the proportion of the receipts of the Government Bank which accrued from the loans of the late Lombard Bank. As these loans were in course of repayment and were not renewed, this head would gradually diminish and would altogether cease, and consequently in any estimate of the prospective results of the present system, the Profits of the Discount Bank only ought to be taken into account, with the requisite deduction for the charges of management, which would probably be not much reduced by the termination of the Lombard loan transactions. All these arguments had failed to convince the Colonial Secretary. By the law of the Colony, the business of banking was exclusively in the hands of the local Government, and this circumstance alone, in his opinion, seemed to present an insuperable obstacle to the incorporation of a private bank. As to the question of the revenue, which was the most important of all,

"the Lords of the Treasury are well aware of the difficulty which must attend any reduction in the Revenue of the Colony . . . retrenchment has been carried to the utmost practicable extent, nor does it seem profitable to explore any new sources of income without a compensatory prejudice to some other branch of the

[1] Quoted in Chalmers' *Colonial Currency*, Appendix B, p. 418.
[2] Treasury Minute, 1/12/1835, P.R.O., T.1, 3477.

Public Revenue. Lord Glenelg is at a loss to understand how the deficiency of Revenue could be supplied and if not supplied how it could be borne.

"This however is the least considerable difficulty. (!) The Lords Commissioners of the Treasury are aware that the paper currency of the Cape . . . exceeds on an average £200,000. This convertibility of this paper into Bills on the Treasury is of course, so long as it shall be maintained, an effectual security against an inconvenient pressure of that demand upon the Public Treasury. To whatever extent the notes of the proposed private bank might displace those of the Government the latter must in some form or other be paid off and the finances of the Colony are at present and will probably long continue to be unequal to such a strain." [1]

Apart from this there is no real want of additional paper money and its circulation could only bring about a temporary stimulation.

"The effect of any such excitement, however, could only be transient and with the return of ordinary times and sober feelings, the circulation would retreat within its natural and healthful channels, the surplus being thrown back upon the banks by whom it had been issued." Therefore, "his Lordship apprehends that it is the evident duty of the Government steadfastly to withhold their countenance from every project of this nature, of which, they may be convinced, that the tendency is highly injurious to the interests of those by whom it is about to be undertaken because such private losses are so extensive in their results both immediate and remote, as to become in effect public calamities."

When Lord Glenelg furnished the Directors of the "Bank of South Africa" with the figures relating to the net profits of the State Bank, therefore, he was in principle opposed to the grant of a charter. It is quite certain that no *exclusive* charter would have been granted, and it is equally certain that the directors would have been acting against their own interests to accept any other: for it would obviously have been foolish for them to have bought their way into the South African business in order to share it with competitors. The charter project was, therefore, doomed as soon as the plan of indemnifying the local Government against loss of revenue was suggested. At

[1] Letter from Colonial Office to Treasury, 11/3/1836, P.R.O., T.1, 3477.

the same time, the idea of the directors to operate a banking business in South Africa "as private traders" would lose a great deal of its attraction once it became known that a resolute local concern was about to do the same thing. This is apparently what happened. During the "Bank of South Africa" negotiations in London, Ebden had been again putting forward his original suggestion for a local bank at the Cape and had succeeded in obtaining incorporation by Ordinance from Governor D'Urban,[1] of the "Cape of Good Hope Bank," with a capital of £75,000 and "double liability." D'Urban, sending the Ordinance forward for confirmation, was this time able to say that it was a measure anxiously desired and very earnestly pressed by the general body of merchants and proprietors throughout the Colony. In London, the local bank was supported by the Cape Trading Society, whose Chairman, Abraham Borradaile, had written to the Treasury,[2] strongly urging the claims of the local project against any bank that might be formed in England. Bank proposals there had been before but

> "the failure of attempts to create Banks of Issue may in a great measure be attributed to the natural prejudice which exists against paper money in a Community who have felt the ruinous effects of the depreciation of even Government paper to below half its original value, and on account of this distrust it is not probable that any bank paper will enjoy the confidence of the Colonist, the regulations for the limiting and securing the issue of which do not emanate from the Colony itself. The lack of sufficient funds in the Colony has also impeded the formation of a Bank without recourse being had to the Capitalists of Great Britain, where they could not be raised without the subscribers there exercising a greater control over its management than the Colonists would perhaps deem advisable to be placed in the hands of strangers—but as a very large sum will before long flow into the Colony for compensation to the late slaveholders, an accession of capital subscribed in Great Britain will not be so much if at all required, and at all events will not compensate for the want of cordiality which will assuredly be withheld from any plan emanating from England, without first obtaining the sanction of the Colonists to its principal details."

[1] Ordinance No. 1836 of 13/6/1836.
[2] Letter to Treasury of 10/4/1835, P.R.O., T.1, 3477.

Any English plan ought, therefore, to be disallowed in favour of the local one. (Borradaile later notified the Treasury that all the shares of the local bank available for English subscribers had been subscribed for by persons connected with the Colony.)

The Ordinance was in due course submitted to the Treasury, who after recommending several detail amendments to make it fit the Banking Regulations, suggested its confirmation, and proposed that the "Bank of South Africa" should now be informed that the Government monopoly of banking at the Cape was now broken and that the field was open to all comers. In reply to this, Lord Glenelg wrote a very long letter which virtually closed the discussion and led to the disallowance of the Ordinance and to the final failure of the "Bank of South Africa" to get its charter.[1] He regarded the anticipated drop in the revenue most seriously.

"Such resources as are to be found in Retrenchment have already been exhausted. The reduction of the emoluments of public officers has been carried to such an extent as to have reduced many meritorious servants of the Crown after long course of public service, to pecuniary embarrassments which it is impossible to contemplate without lively regret, nor can Lord Glenelg reconcile himself to any measure which should expose those unfortunate persons to any further diminution of their hardly-earned incomes."

Further, the expense of the Kaffir Wars had been very heavy and the Colony is still suffering from the effects of a commercial depression resulting from these hostilities;

"but as his Lordship's objections are founded exclusively on the effect which those Institutions" [the proposed banks] "would have on the Public Revenue, he will withdraw them upon being informed that the Lords of the Treasury are prepared to recommend to Parliament a Vote for supplying the deficiency. If not made good in that manner, his Lordship fears that it would embarrass to a very serious extent the administration of the Colonial Government."

Needless to say, the Lords of the Treasury would commit themselves to no such serious step, so that the "Bank of

[1] Letter to Treasury, 6/1/1837, P.R.O., T.1, 3477.

South Africa" had finally to be abandoned and the local Ordinance was disallowed.

Some general inferences from the above historical outlines seem to be worth emphasizing. In the first place, it must be conceded that the early Empire Banks were in the main very respectably fathered. The following list in addition to exemplifying this point, suggests also, that right from the earliest times, these banks formed in London a compact and homogeneous group, connected amongst themselves or with the English domestic banks, by a comprehensive system of interlocking directorates—without taking account of mercantile connections and mercantile origins. The Union Bank of Australia, in particular, was connected through George Fife Angas and his friends on the Board, to the Joplin group (Thomas Joplin was a cousin of Angas) which founded the National Provincial Bank and which includes several names well known in Anglo-Colonial banking, e.g. MacQueen, Farrer, Edward Blount, Samuel Eustice Morgan, and John Wright.[1]

### Some Early Imperial Bank Directors and their Connections.

Oliver Farrer: Provincial Bank of Ireland, Bank of Australasia, Ionian Bank, "Mediterranean Bank,"[2] Bank of British North America.

J. S. Brownrigg: Bank of Australasia, "Bank of India."

[1] The Deed of Settlement of this Bank of 23/9/1833, quotes the whole list of names (Maberley Philips, *History of Banks, Bankers and Banking*, p. 314). The same names occur in the Committee of the proposed "National Bank of England" (*Advantages of the Proposed National Bank of England both to the Public and its Proprietary, briefly explained*, Thomas Joplin, 1833).

[2] The "Mediterranean Bank" was proposed with the object "of establishing Branch Banks of Issue and Deposit upon the most approved principles in the British Settlements of Gibraltar and Malta and in the Ionian States" on a capital of £200,000 (Petition dated 23/3/1836, P.R.O., T.1, 3472). Lord Glenelg wrote that the Ionian State was beyond the pale of the King's authority and that no public advantage would be gained by banks at Malta and Gibraltar. It seems that the projectors were merely fishing for the Government accounts.

George F. Angas : Union Bank of Australia, National Provincial Bank of England.
Charles Barry Baldwin, M.P. : Bank of Australasia, "Mediterranean Bank."
Sir Andrew Pellet Greene : Bank of British North America, "Mediterranean Bank," Ionian Bank.
John Wright : Bank of Australasia, "Mediterranean Bank."
Alexander Gillespie jr. : Bank of British North America, British American Land Co.
George Scholefield : London Joint Stock Bank, "Mediterranean Bank."
John Irving : Colonial Bank, "Bank of India," Bank of Mauritius.
Andrew Colvill : Colonial Bank, Hudson's Bay Company, West India Dock Company.
Alexander Stewart : Colonial Bank, West India Dock Company.

Secondly, the early Imperial Banks in general did well and their shares were normally much sought after. At the time of the Limited Liability Act of 1862, when the well-established position of these institutions was beginning to be threatened by the new legislation, their shares were proving quite good investments—(from *Money Market Review*, 4/1/1862) :

| Share. | Bank. | Paid. | Closing Price. |
|---|---|---|---|
| £ | | £ | |
| 100 | Colonial | 25 | 37–39 |
| 40 | Australasia | all | 59–61 |
| 40 | British North America | all | 50–52 |
| 20 | Chartered of India | all | 19¾–20¼ |
| 25 | Chartered Mercantile of India | all | 31–33 |
| 20 | English, Scottish and Australian Chartered | all | 17¼–17¾ |
| 20 | London Chartered of Australia | all | 24¼–24¾ |
| 20 | Do. do. | 15 | 3¾–4¼ pm. |
| 20 | London and South African | 10¾ | 10¾–¼ disc. |
| 25 | Oriental Bank Corporation | all | 50–52 |
| 25 | South Australia | all | 31¾ |
| 25 | Union of Australia | all | 38–39 |

From the Press in most cases they had an enthusiastic send-off, as numerous articles in the *Economist* (Joplin's), the *Atlas*, and the *Circular to Bankers* testify ; it is to be regretted, in fact, that this precluded much useful criticism which would certainly have been made in the case of domestic banks. The opposition they had to face came firstly from

the displaced merchant bankers and exchange traders in London, and secondly from competing local banks abroad; in neither case was it justified on economic grounds, and the opposition of merchants in London often turned into support after the banks had been started. "It is admitted," said G. M. Bell (Secretary of the London Chartered Bank of Australia), in 1843,

"that the formation of banks in London for our possessions in Australia, the West Indies, British North America, and other places, has been productive of advantages both to the Mother Country and to the Colonies; they are not supposed to have injured the Merchants connected with these Colonies." [1]

R. M. Martin says, in connection with the Agency Houses, the best examples of powerful vested interests, that

"the East India Agency Houses in London . . . acknowledged that the formation of banks in London for our possessions in Australasia, the West Indies, British North America, etc. had been a source of great benefit and had not injured the merchants connected with those Colonies but that the reverse of what was at first anticipated had occurred." [2]

And the opposition in the Colonies quickly gave way to a more tolerant attitude when the benefits of lowered money rates and easier or cheaper sterling exchange became manifest, especially when the Colonists realized that they were at least protected from the worst excesses of speculative banking by the provisions of the Banking Regulations.

[1] *Foreign and Colonial Quarterly Review*, July, 1843. See also his remarks in the same connection in *Philosophy of Joint Stock Banking*, London, 1855.
[2] *Bank of Asia—Proceedings.*

## CHAPTER IV

## THE END OF THE CHARTERED BANK SYSTEM

The last few banks to be incorporated by Royal Charter and the first few to receive their powers under the Limited Liability Acts, together form a second series of Imperial banks, founded not altogether like the older institutions on account of a general increase in overseas investment, but more usually to make profits from business created by the colonial gold discoveries or to exploit new areas altogether. The cheapness and facility of incorporation under the new Acts, together with the increasing disinclination of the Government to favour any extension of its responsibilities towards the existing Imperial Banks, gradually forced the old chartered-bank system into disuse in this period, and some facts in connection with this need consideration.

The privilege of limited liability, for which the Chartered Banks had been willing to submit to so many hampering restrictions, was extended to any banking company of seven persons by the Act of 1858 and the consolidating Act of 1862. It is noteworthy that in the discussion of the wisdom of this new departure as applied to domestic banks, flattering references were often made to the success of the Imperial experiments.

"Banks with limited liability have been less subject to failure than banks with unlimited liability. Among all the chartered banks at home which were formed upon the principle of limited liability, we are not aware at the moment of one that has failed; and in the case of the Colonial Banks which during the last thirty years have been all formed upon that principle, with perhaps one exception of which we are not quite certain, no failure has taken

place although the nature of the business is necessarily more hazardous." [1]

Presumably because the Colonies were already used to limited liability banks, the *Banking Mania* of 1862, which called forth such strong comments from the financial press,[2] came under no sort of condemnation when it infected the Anglo-Colonial banks. New banks, floated to operate in relatively undeveloped countries, ought naturally to have a large capital, since they could scarcely hope to earn much on lending out the meagre deposits obtainable in those countries, but provided this simple rule is observed, little danger need be apprehended from any number of these flotations.[3] No one suggested that under the new dispensation, the Colonies were exposed to a flood of small, speculative banks, from whose unwelcome attentions they had been sedulously protected by the Colonial Banking Regulations since 1830. The more developed parts of the Empire were now far more able to take care of themselves than in 1830, but the situation obviously had its potential dangers, almost as great in the Colonies as in the Mother Country.

The new legislation is of interest, because it involved some special hardship for overseas banks. The Act of 1857 (20 & 21 Vict., c.49) did not confer limited liability but merely repealed Section 2 of the Joint Stock Companies Act of 1856, prohibiting banks and insurance companies from registering thereunder as unlimited companies. The Act of 1858 (21 & 22 Vict., c. 91) was the "Act to enable Joint Stock Banking Companies to be formed on the Principle of Limited Liability," but the limited liability was not to extend to notes. Further, an old unlimited company re-registering as a limited company

[1] *Economist*, 15th May, 1858. The exception was perhaps the Bank of Ceylon. See also the Discussion on the Joint Stock Banking Companies Bill and comments of the *Bankers' Magazine*, June, 1858. In view of the probable utility of colonial experience in the matter, the interesting 1857 *Return of Banks trading in the U.K. or the Colonies, specifying the Nature of the Liability of the Shareholders, etc.*, was called for.

[2] *Bankers' Magazine*, June, 1862; *Economist*, 9th and 30th July, 1864; *Money Market Review*, 12th April, 1862, etc.

[3] *Economist*, 13th December, 1862.

"shall, at least 30 days previous to obtaining a Certificate of Registration with limited liability, give notice that it is intended so to register the same to every person and partnership firm who shall have a banking account with the Company . . . and in case the Company shall omit to give any notice . . . then as between the Company and the person or persons only who are for the time being interested in the Account . . . the Act of Registration with limited liability shall have no operation."

The Act of 1862 (25 & 26 Vict., c. 89) repeated the 30 days' notice provision. In the case of domestic banks, this requirement would present some difficulties, but the same difficulties with an overseas bank having branches scattered all over the world, were greatly increased. The first Imperial banks which took advantage of the Acts were therefore new ones, and the older non-chartered banks with unlimited liability came in very slowly afterwards, partly because they were dubious about the effects of the new privilege on their credit and partly on account of the difficulties of the 30 days' notice provision. Many of the older banks hesitated for a long time, and in many cases were brought in only as a result of forced reorganizations.

Some prominent characteristics of the first crop of new banks are revealed in the following list. Most have a large nominal capital relative to the small amount paid up; many in spite of high-sounding names never got beyond registration and did no business at all; the typical Memorandum of Association of the new banks was not at all comparable to the bulky charters of the old ones, and a common and over-simplified form of Memorandum was used for many of the new banks which intended to operate in widely different territories. The Memorandum of the "Imperial Bank of Australia Ltd." is a good example of this.[1] This was a bank floated by Solicitors and "Gentlemen" from Islington, Peckham and Pentonville respectively. It was formed for

"the carrying on in the United Kingdom and in Australia and also in other countries with which there may be commercial

[1] It was also adopted by the National Bank of India, Ltd., and the Scinde, Punjaub, and Delhi Bank Corporation, Ltd., but with qualifications introduced in the Articles.

LIMITED LIABILITY BANKS INTENDED TO OPERATE WITHIN THE BRITISH EMPIRE, FOUNDED 1857–1866.

| Name of Bank. | Date of Registration. | Nom. Capital. | No. of Shares taken up. | No. of Shareholders. | Paid-up Capital. | If Working. |
|---|---|---|---|---|---|---|
| | | £ | | | £ | |
| Agra and United Services Bank, Ltd. | 18/11/1858 | 2 mn. | — | 685 | — | Still working. |
| London and Colonial Bank, Ltd.[1], [2] | 17/3/1858 | 1 mn. | 8,419×£100 | 238 | 77,548 | Do. |
| Bank of Queensland, Ltd. . | 2/6/1858 | 1 mn. | 8,093×£100 | 284 | 160,935 | Do. |
| Bank of Hindustan, China and Japan, Ltd. | 12/7/1858 | 2 mn. | 9,717×£100 | 214 | 174,835 | Do. |
| Canadian Bank of England, Nova Scotia and New Brunswick, Ltd.[2] | 22/9/1858 | 1 mn. | 70×£100 | 7 | — | No longer. |
| Standard Bank of British S. Africa, Ltd. | 15/10/1858 | 2 mn. | 10,000×£12<br>4,340×£25 | 373<br>5 | 214,906<br>— | Still working. |
| Scinde, Punjaub and Delhi Bank Corporation, Ltd. | 4/12/1862 | 1 mn. | 25,000×£20 | 76 | 124,940 | Do. |
| Bank of Canada, Nova Scotia and New Brunswick, Ltd. | 2/12/1862 | 1,000 | 7×£100 | 7 | — | Dissolved. |
| Intercolonial Bank of Australasia and N.Z., Ltd. | 2/3/1863 | 1½ mn. | 45×£100 | 7 | — | No longer. |
| Bank of Gibraltar and Malta, Ltd. | 4/3/1863 | ¼ mn. | 7×£100 | 7 | — | Still working. |
| Bank of Otago, Ltd. . . . | 27/4/1863 | ¼ mn. | 7×£100 | 7 | — | Do. |
| New Zealand Banking Corporation, Ltd. | 29/4/1863 | 300,000 | 21×£100 | 7 | — | Not known. |
| Imperial Bank of India, Ltd. . | 14/4/1864 | 1 mn. | 150×£50 | 7 | — | Supposed working. |
| Imperial Bank of China, India and Japan, Ltd.[3] | 22/4/1864 | 2 mn. | 150×£50 | 7 | — | Do. |
| Imperial Bank of Australia, Ltd. | 23/4/1864 | 5,000 | 70×£5 | 7 | — | Do. |
| Peninsular, W. Indian and Southern Bank, Ltd. | 25/7/1864 | 2 mn. | 13,680×£100 | 96 | 97,967 | Being wound up. |
| London Bank of Madras and S. India, Ltd. | 27/7/1864 | 2,000 | 7×£50 | 7 | — | Supposed working. |
| London and Bombay Bank and General Financial and Insurance Agency Corporation, Ltd. | 27/7/1864 | 4 mn. | 74,493×£20 | 1,766 | 148,986 | Still working. |
| Indian United Service Bank, Ltd. | 24/8/1864 | 2,000 | 7×£50 | 7 | — | Supposed working. |
| Anglo-Indian Bank and Financial Corporation, Ltd. | 21/3/1865 | 1 mn. | 7×£10 | 7 | — | Do. |
| General Exchange Bank, Ltd.. | 24/3/1865 | 1 mn. | 19,943×£13 | 7 | 165,682 | Still working. |
| Mexico, Havana and Colonial Bank, Ltd. | 5/4/1865 | 1 mn. | 7×£20 | 7 | — | Supposed working |
| Bank of British Africa, Ltd.[4]. | 5/5/1865 | 1 mn. | 400×£25 | 8 | — | Do. |
| Bank of Goozerat and Central India, Ltd. | 19/5/1865 | 2 mn. | 1,005×£50 | 7 | — | Do. |
| Delhi and London Bank, Ltd.. | 13/7/1865 | 1 mn. | 11,926×£50 | 229 | 298,150 | Still working. |
| National Bank of India, Ltd.. | 23/3/1866 | 2 mn. | 350×£25 | 7 | — | Supposed working. |
| London and Natal Bank, Ltd.. | 26/4/1866 | 300,000 | 5,400×£20 | 7 | — | Do. |

[1] Intended to operate in the West Indies. See *Money Market Review* of 11/6/1864; *Banks of Issue in the British Colonies*.

[2] Cf. adverse comments in the *Bankers' Magazine*, November 1862.

[3] Amalgamated with the Bank of China, Hindustan & Japan, Ltd., in 1864.

[4] This was the "Standard Bank of British South Africa, Ltd.," attempting to re-register with a smaller capital in order to avoid a Cape Government tax on *subscribed* capital. The project was never carried into effect. See Amphlett's *History of the Standard Bank*, Chapter ii.

relations, the business of banking in all its branches and discounting and dealing in exchanges and in specie and securities and other representatives of value and receiving deposits of money and valuables and receiving and making loans and investing monies and taking and realizing securities whether real or personal and acting as agents in money matters for the Government of Australia or any other Government and other authorities and public and private bodies and persons and establishing and carrying on of banks and branch banks and agencies wheresoever the Company think fit and the carrying on of all monetary and other financial business and operations whatsoever. And the doing of all such other things as the Company from time to time consider incidental or conducive to the attainment of any of those objects or otherwise for the benefit of the Company."

The elastic terms of this Memorandum and the breadth of operations of the proposed Company stand in noticeable contrast to the earlier and much more precisely worded charters.

In the list on the opposite page, land banks, savings banks, discount companies, and hybrid banks and trading companies are not included. 2,966 limited companies were formed in this period, of which about 140 were so-called banks.[1]

Comparatively few of the new schemes were really effectively backed by well-known names representative of Home and Colonial banking and financial interests—a further contrast with the original chartered banks. Examples of the few well-supported banks are given on next page.

The testing time came, of course, with the Overend Gurney crisis—the presence of so many weak concerns being an important factor in the crisis itself. As a direct result of the crisis, many of the new companies which had managed to struggle into existence and start business, went down; this applies to the Bank of Hindustan, China and Japan, the Bank of Queensland, Agra and Mastermans Bank, the New Zealand Banking Corporation, the Peninsular, West Indian and Southern Bank, the London and Bombay Bank, and the Oriental Commercial Bank. Only two

[1] Source: *Returns of the Names, Objects, etc. . . . of all Joint Stock Companies formed or registered since the passing of the Act* 18 & 19 *Vict. c.* 133, P.P. 452 of 1864. Also the similar *Returns* of Companies registered 31/5/1864 to 31/5/1866, P.P. 429 of 1866.

| Bank. | Directors. | Also connected with: |
|---|---|---|
| Scinde, Punjaub and Delhi Bank | A. Boyd . . . | Union Bank of London. |
| | W. Russell, M.P.. | National Discount Co. |
| National Bank of India | R. O. Campbell . | President, Bank of Madras. |
| | R. P. Harrison . | Governing Director, Bank of Bengal. |
| Standard Bank of S. Africa | S. B. Edenborough | Imperial Bank, Bank of Otago. |
| | John Paterson . | Alliance Bank of London and Liverpool, Merchant Banking Co. of London. |
| | Thos. Stenhouse . | Alliance Bank of London and Liverpool, Chartered Mercantile Bank of India, Merchant Banking Co. of London. |
| | J. Torrance . . | Alliance Bank of London and Liverpool. |
| | E. Weston . . | Merchant Banking Co. of London. |
| National Bank of New Zealand | C. Magniac, M.P.. | Russian Bank, Matheson & Co. |
| | D. R. Smith . . | S. Smith Bros. & Co. (Hull Bankers). |
| | W. S. Grahame . | Late director of Bank of New Zealand. |
| | A. G. Dallas . . | Hudson's Bay Co. |
| | E. B. Hoare . . | Barnetts, Hoares, Hanburys and Lloyd. |
| Bank of Hindustan, China and Japan | T. Cotterell . . | Bank of Wales. |
| | J. H. R. de Castro | Alliance Bank of London and Liverpool. Merchant Banking Co. of London. |
| Bank of Otago | J. R. Morrison . | Chartered Bank of India. |
| | W. W. Cargill . | Oriental Bank. |
| | G. H. Donaldson. | English, Scottish and Australian Chartered Bank. Agra and Mastermans Bank. |
| | A. L. Elder . . | English, Scottish and Australian Chartered Bank. |

chartered banks suspended, both newly-created—the Asiatic Banking Corporation and the Commercial Bank Corporation of India and the East.

It was inevitable that the weaker of the new banks should have to contend with large losses suffered through inexperience and thus find themselves in a dangerous position by the time of the crisis. This was so in the case of the Peninsular, West Indian and Southern Bank, and the Scinde, Punjaub and Delhi Bank nearly came to grief in this way through unauthorized dealings on the part of the Calcutta manager. Amalgamation with the National Bank of

India (then an Indian bank) saved it. The Bank of Hindustan, China and Japan, was also unlucky in its choice of staff; the losses which weakened the bank [1]

"have for the most part been made at the Bombay, Calcutta and China branches, and appear to us to have occurred from the most reckless management and in some cases an almost total disregard of the established rules of the bank and in opposition to the special instructions of the Head Office."

These difficulties were familiar enough to the older Exchange Banks, and they also had bought their experience dearly.

The Bank of Queensland met the crisis in a weak position and it was unable to withstand a run on its Brisbane office. The chairman had already explained [2] that the passing of the dividend in 1866 "was altogether owing to their Colonial Manager making advances on securities of sheep and cattle stations, saw-mills and other buildings." The New Zealand Banking Corporation had not been established long enough for it to obtain assistance on credit by the time of the crisis and it had to suspend in consequence. The London, Bombay and Mediterranean Bank had been liquidated in July, 1866, but a proposal was made to reconstruct it, which might have been successful (the Bank was suffering from the effects of an unfortunate amalgamation) had not the crisis intervened.

The most important and most interesting suspension was undoubtedly that of the Agra Bank. This was the only Imperial bank to be incorporated under the Companies Act of 1857, and it had, in 1864, amalgamated with Masterman, Peters, Mildred & Co., private bankers in London, in order to strengthen its London connections and to get the benefit of membership of the Clearing House. Its suspension occurred on 6th June after Overend Gurney's failure on 10th May. "The suspension of the Agra proves that the position of the parent house may be compromised by unfounded alarm at the branches . . . its branches were its ruin." [3] The "unfounded alarm" which caused a

[1] Auditor's Report, 16/11/1866.
[2] Speech at Annual Meeting, 22/5/1866.
[3] *Bankers' Magazine*, July 1866.

run on the Eastern branches, kept the directors in London very busy combating a run there, caused by bear sales of their shares, and their inability to respond to the calls for help from both ends, precipitated the suspension. The Agra had branches in India and China and at Sydney, Melbourne and Paris. The criticism that "its branches were its ruin" must be admitted to have some justification. It must always be a weakness peculiar to overseas banks that they are likely to be subjected to attacks from several different monetary centres, after having suffered losses at one only; and the more widespread are the branches, the more severe and disconcerting may be the attacks.

Since this first purifying process, the prevailing method of incorporation has been on the limited company model, and many of the old chartered banks now also come under the Companies Acts. Successful new banks, like the National Bank of New Zealand and the Bank of Africa in the seventies or the Eastern Bank and the P. & O. Bank in the present century have all sought limited liability through the Companies Acts. Some of the Anglo-Colonial banks followed the lead of the English institutions and adopted the "Reserved Liability" Act of 1879, but for chartered banks this was impossible without a private Act, and both the Ionian Bank and the Bank of South Australia had to become limited companies by Act of Parliament in order to extend the scope of their activities.[1] Others had to relinquish their charters and reconstruct under the Companies Acts owing to losses which were made good in some way not permitted by the charter. The English, Scottish and Australian Chartered Bank, the London Char-

[1] The Ionian Bank was a special case. This bank was founded in London in 1839, under a Deed of Settlement, and it obtained a charter from the United States of the Ionian Islands in the same year. Its Royal charter was obtained from the British Government in 1844, the terms not being absolutely identical with the privileges granted by the Ionian Government. After 1864, when by the Treaty of London, the Ionian Islands were transferred from the Protectorate of Great Britain to the Kingdom of Greece, this lack of correspondence and the difficulty of working under two authorities became so pronounced that this, and the fact that parts of the charter were now restrictive and antiquated, induced the directors to promote a Bill in Parliament in 1882 giving power to determine the charter and register under the Companies Acts.

tered Bank of Australia, and the Chartered Mercantile Bank of India, all did this in 1893, following a procedure which had been initiated by the New Oriental Bank Corporation in 1884. Changes in the scope and technique of overseas banking business in general, were making the restrictions of a charter irksome, and unless, in special cases, there were great compensating advantages, the older banks saw themselves being gradually outdistanced in competition by newer and more accommodating institutions. A good example of such a clash, is provided by the history of the competition between the Standard Bank of South Africa and the London and South African Bank, the latter being almost the last bank to be chartered and the former one of the first Imperial banks to register under the Limited Liability Acts. The charter of the London and South African Bank provided that notes were to be made payable not only at the Branch of issue but also at the Principal Establishment of the Company in each Colony, whereas the Articles of Association of the Standard Bank called for the obligatory redemption of notes at the place of issue only. The note issue of the latter bank could therefore be extended to larger amounts on an equivalent reserve, especially as the Bank discouraged redemption by deducting 1 per cent. commission on branch notes redeemed at the Colonial Head-office. Thus,

"the provisions of the Charter were an incubus upon the London and South African Bank, which contributed in a large measure to its downfall; while at the same time its younger but more vigorous rival enjoyed a practical monopoly of note issue and reaped a corresponding profit." Also, "the Directors would appear to have slavishly adhered to the terms of the Charter which ordained that the Branches were to be under the supervision and control of the Principal Establishment in London. There was consequently too much centralization of management." [1]

Royal Charters had now few special advantages over limited company banks (except that they generally permitted the issue of notes in Crown Colonies without special Ordi-

[1] *Advent of the Imperial Banks*, J. R. K. Barker, *Journal* of the Institute of Bankers in South Africa, September 1907.

nance) and as the supervisory arrangements with regard to the existing chartered banks were giving considerable trouble to the Government Departments concerned, it was now a question whether the whole system, devised as it was to help the banks at a difficult stage in their history, ought not to be abolished. In the thirties, it had been necessary to attract capitalists into admittedly difficult and dangerous enterprises by granting limited liability and by ensuring an effective public scrutiny of the banks' affairs, but the new legislation made this no longer necessary and the banks were now firmly established.

The temporary nature of the system had been emphasized by the practice of granting charters for strictly limited periods—in most cases for twenty-one years,[1] and the probable reasons for this policy seem plain enough.[2] Government protection ought only to be given during the embryo stages; the Colonies ought not to be saddled indefinitely with powerful and independent banking companies, especially in view of the possibility of the grant of self-government; and the Government itself ought to have an opportunity of reviewing its banking policy periodically and altering the charters if it saw fit. The banks would normally find their charters becoming archaic after about twenty years, too. With the system rapidly becoming out of date, it now seemed reasonable to take advantage of its temporary nature and abolish it, more especially since the Government towards the latter part of the century was becoming conscious of many objections to it. The sort of Government interference which the charters involved, carried with it partial Government responsibility for the concerns, which however indefinite, was undesirable as a permanent characteristic. The system contained a hint of

[1] The charter of the Bank of Australasia grants the Bank powers in perpetuity, but it is the only one of its kind. During the negotiations, the Law Officers insisted that perpetual succession was essential for a corporate body, but they committed the error of including everlasting business powers as well. In subsequent charters the *business* of the Corporation was to cease in twenty-one years, though the Corporation itself was still to exist, divested of all its powers.

[2] They are suggested in Sir E. W. Hamilton's *Confidential Memorandum on the Chartered Banks*, April 1877, C. O. Library. Hamilton was at the Treasury.

special privileges to only a few favoured banks; it implied interference with the newly-fledged colonial legislatures, which had full power over joint-stock banks, and lastly, "the Charters of Incorporation impose on the Executive Government . . . duties and responsibilities which it cannot suitably or conscientiously undertake."[1] Some of these responsibilities are worth enumeration.

The Treasury, in all cases, had to make sure that all capital was subscribed and one-half paid up before the commencement of business. In many instances, the Treasury had to give its approval for increases of capital, though its competence on this point may be doubted. It had to approve the arrangements for re-electing retired directors—in the case of the Chartered Bank of India, for instance, the Deed of Settlement actually had to have a clause "providing such restrictions regarding the re-election of the retired directors before the expiration of 12 calendar months after they shall have retired as the Commissioners of our Treasury shall require to be inserted in the Deed," and similar responsibilities were shared with the India Office and the Colonial Office in respect of the London Chartered Bank of Australia, the Bank of British Columbia, and the English, Scottish and Australian Chartered Bank. Statements of Account had to be rendered to the Treasury; by-laws and deeds in many cases required Treasury approval before being valid; some charters gave the Treasury discretionary power to authorize the issue of notes of a lower value than £1, others the power to extend the limit of value of real property which could be lawfully held by the Corporation. The Treasury and the Board of Trade, in any case, usually had to be notified of any purchases of land. Finally, the Treasury could authorize the opening of branch banks in places other than those mentioned in the charter, in the case of the Oriental Bank Corporation, the Chartered Bank of India, and the Chartered Mercantile Bank. These tasks, in general, were not such as could be adequately performed by a Government Department—in the England of that time at any rate—and the obvious course of action

[1] Hamilton, *op. cit.*

was to abolish the whole system. In fact "the Treasury has declined to advise H.M. to grant any new charters of incorporation since the passing of the Companies Act, 1862," the only exception being the Asiatic Banking Corporation, which failed in the panic of 1866. Moreover,

"an attempt was made in 1872 to terminate the Royal privileges of the Oriental Bank Corporation whose charter was about to expire, but the attempt failed, chiefly owing to the Treasury being not sure what would be the effect of a Chartered Bank being loosed from the 'leading strings' of a Charter. . . ."[1]

It was obvious that to withdraw a charter suddenly would lead to damaging suspicion, and in any case would be a breach of faith with the banks, who relied on the continuance of their special privileges to do business; also, if the Company subsequently registered under the Limited Liability Acts, the security of creditors would be affected by the substitution of "single" liability for "double" liability, and the shareholders, formerly protected by the "double" liability clause, would now be responsible in full for notes issued. The privileges of the charter (e.g. of note issue) would also have to be replaced by local Acts, in obtaining which the Company might meet with considerable difficulties. It was with some appreciation of the awkward points involved in these considerations therefore, that the Government introduced, in 1880, the Chartered Banks (Colonial) Bill, and referred it to a strong Select Committee, including amongst others Sampson Lloyd and Sir John Lubbock.[2]

The Bill had for object the idea of dissociating the Government from interference with and any kind of responsibility for the management of the banks, without taking any steps that would be injurious to their credit. The committee took some evidence, but reported that as the Bill could not be passed before the dissolution of Parliament, it was undesirable to proceed further with its consideration, and

[1] Hamilton, *op. cit.*
[2] Appendix I of the Select Committee's *Report* reproduces most of the difficulties noted in Hamilton's Memorandum. P.P. 115 of 1880.

they therefore agreed to report it without amendment. The Bill [1] stated:

"Whereas it is expedient to relieve the Treasury . . . from their powers and duties under the said Charters and Supplemental Charters and to leave to the said Banking Companies the uncontrolled management of their own concerns, but at the same time it would be inexpedient that such removal of control should involve the determination of the powers and privileges conferred by the said Charters . . . from and after the passing of this Act, the Treasury and other Government Departments shall cease to have, exercise, or perform any powers or duties vested in them by any Charter . . . of the Banking Companies mentioned in the Schedule to this Act."

These Companies were: the Bank of Australasia, the Bank of British North America, the Bank of South Australia, the Oriental Bank, the London Chartered Bank of Australia, the English, Scottish and Australian Chartered Bank, the Chartered Bank of India, the Chartered Mercantile Bank of India, the Bank of British Columbia, the Ionian Bank, and the Bank of Egypt.

As the Bill could not be proceeded with, the Treasury (under the new Government) formulated the Model Charter scheme.[2]

"My Lords read the Bill brought into Parliament by the late Board of Treasury making further provision with respect to certain chartered banking (colonial) Companies. They read also the Report of the Select Committee to which the Bill was referred. They approve generally the principles embodied in the Bill. . . . But the late period at which the work of the present session commenced and other circumstances have made it impossible for them to bring the question before Parliament with fair prospect of exhausting the debates which they have reason to anticipate on the subject of the Bill and of passing it. . . . They will cause a Model Charter to be prepared embodying in simple and concise terms, the provisions of the Bill of the late Government with any general clause of the existing charters applicable either wholly or with slight modifications to all the banks."

As the existing charters expired, the Model Charter was to be applied.

[1] P.P. 1880, Vol. I, p. 389.
[2] Treas. Minute, 21/7/1880.

"My Lords will be ready to communicate the Model which they propose to adapt to the different banks concerned as soon as it is prepared, it being their object to offer no obstacle to the progress of the banks so long as the control of Parliament and the simplicity and soundness of the regulations approved by the Treasury are secured."

The privileges of the Model Charter were given for ten years. Nothing was included which might affect the existing liability of members of the Company, but the Treasury was relieved from the exercise of any powers or duties vested in them by the charter, and the assent of the members testified by Special Resolution was to be deemed equivalent to the assent, or sanction of the Treasury. Subject similarly to such assent of the members, the directors of the Company might exercise any discretionary power which the old charter vested in the Treasury. Where the Company sought fresh power as regards note issue or the opening of new branches and where the terms of the old charter demanded Treasury sanction for this, the Company was now to apply to the Governor of the Colony or the Secretary of State in the case of India. Increase of capital, instead of being authorized by the Government, was now to be sufficiently sanctioned by a Special Resolution of the Company. Finally, the bank was to be bound to carry on business in conformity with the laws of the Colony in which it was operating. Power to revoke the charter was of course reserved.

The banks could congratulate themselves on this arrangement with some justification, because they retained most of the advantages of their privileged status, whilst ridding themselves of a considerable proportion of its drawbacks. A bank charter nowadays is of some use. It provides a visible sign of historical continuity, and since its validity, legally, is unquestionable throughout the whole of the British Empire, its note issue and other powers are safeguarded within the Empire wherever it chooses to operate, except where its terms are directly in conflict with specific local legislation. This, in practice, is not of much use to the Bank of Australasia, since this bank operates only in

Australasia and its note issue in Australia has lapsed as the result of a local Act; but the Chartered Bank of India, the only other bank of this kind left, finds this Imperial validity useful for its note issues in the Far East. (These powers would quite certainly be overruled in the Dominions.) The undoubtedly great prestige value of a charter remains untouched—limitation has even increased it, though it cannot be said to rest upon so secure a foundation as it did in the period before the Limited Companies Acts. Government supervision and control, such as might have been relied upon in 1830–60 as a security for the stability of the concern, became much too troublesome afterwards and the connection has been gradually relaxed ever since until it has now become a merely formal one.

The new series of limited company banks and the last few chartered banks of the fifties and sixties, at first received a somewhat warmer welcome than their predecessors. There was the usual cordial send-off from the London Press, and references—in the case of India, for instance, to the "valuable political service our Anglo-Indian banks are destined to perform in British India," [1] as well as the eulogies received by the Standard Bank founded to operate in South Africa,[2] do not suggest any alteration here. In the case of South Africa, the banks also had a good reception in the *colony* —at first.[3] The reaction came to some extent because of the unpopularity of the Standard Bank's policy in absorbing very quickly numbers of the much smaller local banks, regardless of local feeling; [4] but apart from the dislike which the Bank incurred by reason of these sweeping amalgamations, it received a severe rebuff in the Orange Free State, from which it was excluded in terms of the following significant Resolution of the Volksraad: [5]

[1] "The Anglo-Indian banks under their present efficient management will certainly not fail to take advantage of further opportunities," etc., etc., *Money Market Review*, 23/1/1864, commenting on the Eastern Exchange Bank's prospectus.

[2] Amphlett notices these with pleasure in *History of Standard Bank*, Chapter i.

[3] Local Press opinions in Amphlett, Chapter i.

[4] Barker (*Advent of the Imperial Banks*) mentions one projected amalgamation amongst the local banks themselves, to counter this invasion but nothing came of it.

[5] Quoted by Barker in *Advent of the Imperial Banks*.

"The Volksraad, taking into consideration that the branches of foreign establishments which have established themselves in the Orange Free State, exist here in conflict with the law, that there is no security for the bank notes which they issue; that they as far as our State is concerned have no responsibility whatsoever; and that they take the profits which they make beyond our boundaries; and further taking into consideration that if further banking establishments or branches thereof are not prohibited here, the whole people will slowly come into their power and become dependent upon foreign capitalists—Resolves that as from January 1st 1866, no foreign banks or branches thereof may exist within this State."

The principle of limited liability upon which the new bank was founded met with little approval either. Barker quotes the following letters to the *Free Press* in 1863:

"Why should they" [the Queenstown local banks] "ask assistance of a cracked staff, a split reed, which when leaned upon, may pierce the hand; not liable for its acts except to the amount of its capital which like a shower of snow may melt in one night, without much injury to its London partners, but with total ruin to our small community?"

"What do Queenstown banks require of these great Limited Responsibility London banks? Is the whole circulating medium of our district to be jeopardized under the honesty and discretion of men we never saw and who are not responsible for their own acts?" etc., etc.

Barker notes that the first letter "faithfully reflects the popular opinion then entertained in many parts of South Africa regarding the Standard Bank." The second "is typical of colonial opinion at that date." He even suggests that there is a connection between the advent of the Imperial Banks and the founding of the Afrikander Bond.

In Australia, there was opposition from the start. There was already evidence of a not particularly favourable attitude towards even the older English banks—the Banking and Currency Committee of the New South Wales Legislature had reported adversely on them in 1852: [1]

"It has been their practice" [i.e. of the Union Bank of Australia and the Bank of Australasia] "to trade in the Australasian Colonies mainly upon their credit, their capital being

[1] P.R.O., C.O. 204/36, p. 1239.

almost wholly invested in England. Their returns for the quarter ending on the 31st March last show that the Bank of Australasia during that period, while issuing notes to the extent of £91,000 and discounting to considerably more than the extent of a quarter of a million, had only £23,000 of its own capital in this colony. And the position of the Union Bank at the same time was more objectionable for while it had notes in circulation to the extent of £161,000 and carried on a discount business of £365,000, it had not only none of its capital in this country but had even £53,000 of the deposits of its customers invested elsewhere. . . . When your Committee see that the notes which they issue to the amount of £252,000 which they may issue to the extent of millions, have no better basis than a capital existing or supposed to exist at the ends of the earth, they deem it their duty to bring the matter prominently under your consideration."

The English banks have also been accused of thwarting the incorporation of a local bank in Victoria in this period.

"Satisfied with their profits and partial monopoly, the two London-owned banks always thwarted the attempts of local capitalists to form local banks. . . . In 1852, Mr. Henry Miller in spite of the desperate opposition of the English banks, put a limited charter through the Victorian Parliament for the Bank of Victoria." [1]

If the already existing English banks called forth such criticism, it is not surprising that the newer institutions met with more pronounced opposition. The new banks proposed for Australia at the time of the gold rush were:

| | Nom. Capital. | Paid-up Capital (1853). |
|---|---|---|
| | £ | £ |
| London Chartered Bank of Australia . . . . . | ½ mn. | 312,500 |
| English, Scottish and Australian Chartered Bank . | ½ mn. | 250,000 |
| Chartered Bank of India, Australia and China . . | 1 mn. | 100,000 |
| London Bank of Australia and India . . . . . | ½ mn. | 50,000 [2] |
| Chartered Bank of Asia . . . . . . . . . | 1 mn. | 200,000 |

[1] *Australian Banking*, by G. D. Mendell. Paper read before Historical Society of Victoria, June 1927.

[2] This Company was wound up in 1853. The charter was not refused, but the Board of Trade decided to refer the application to the local Government, and as a result of the great delay which ensued, the promoters decided to abandon the scheme. Cf. their Circular of 1/4/1853 printed in the *Bankers' Magazine*, May 1853.

In addition the Oriental Bank opened agencies at Sydney and Melbourne in 1852.

At these relatively large figures, even the most conservative of the London financial organs hesitated a little before administering the customary benediction. Of course, "where local interests and local prejudices prevail so strongly as they invariably do in our colonies, allowance must be made for coloured or exaggerated statements . . ." [1] "Although we think that local capital will probably be sufficient without supplies from England, we by no means wish to discourage new banks in Australia," but "in Australia especially, the most important lesson for banks to inculcate is a high moral ground for all trading operations" so that then "profits will come, if not without seeking, at least without exciting envy or dissatisfaction." [2] One of the "exaggerated statements" of the Colonists recorded that [3]

> "before the end of the year we shall have a million of additional capital employed in banking. What is to be done with it? We have repeatedly shown that the Anglo-Australian banks perform their operations with the deposits of their customers, leaving the larger portion of their paid-up capital in England, much of it resting on what Sydney Smith called 'the sweet simplicity of the Three per cents.' What is to be done with this large additional capital? Will it by lowering discounts have a tendency to increase the rage for speculation of which we already have symptoms, or will it be returned to England with all speed? . . . If we have as many banks as we fear we may have, the consequences will be injurious to the Colony and ruinous to those who have embarked their capital in them."

Since the gold discoveries, Australian prosperity had been advancing rapidly and with every appearance of solidity and permanence. "The only ground of anxiety is lest this solidity and this safety should be compromised by that enormous extension of our banking operations with which we are threatened from the capitalists of the Mother Country." [4]

One of the immediately perceptible effects suggests that

[1] *Bankers' Magazine*, April 1853.
[2] Ibid., September 1853.
[3] *Sydney Morning Herald*, 5/3/1853.
[4] Ibid., 18/3/1853.

there was some truth in the above remarks. The new banks brought discount rates down from 10 per cent. to $2\frac{1}{2}$ per cent., and this at a time when the London Bank Rate was at 5 per cent.,[1] and the Chairman of the Bank of New South Wales spoke with reason when he referred pointedly to the disadvantages of "foreign competition originating in a false view of the position and wants of this community." [2] It is interesting to observe that it was the apparent dangers of this situation which frightened the Chartered Bank of India away. The chairman "did not regret that hitherto this bank had been out of the field, for he believed when the present state of over-trading there should have ceased . . . there would be a far better opening for the operations of a new bank than at present." [3] No branch in Australia was, however, opened subsequently, and it is believed that the opposition of the Associated Banks was the cause of this.

Local antagonism was also evinced in New Zealand. The National Bank of New Zealand, one of the most important banks of the limited liability series, was floated in London in 1872, under good auspices, a former Governor of the Colony and Speaker of the House of Representatives being on the Board. Double the amount of necessary capital was subscribed in London and for the 33,333 shares allotted to New Zealand, 41,719 applications were received,[4] 847 of the 1,600 members of the Company being New Zealanders. The chairman insisted, in his first speech, that "the business . . . of this bank must depend upon its colonial proprietary." Moreover, to "save us a great amount of locked up and idle money for a time" and "put us in possession of a number of branches at places where we could not set up establishments except in direct competition with existing institutions," the directors arranged to smooth the way by taking over the Bank of Otago as a going concern. In spite of all these elaborate preparations to gain the favour of the Colonists, the National Bank had an uphill

[1] *Sydney Morning Herald*, 25/11/1853.
[2] Speech at Annual Meeting, 1853. [3] Ibid., 28/2/1855.
[4] Announcements at Annual Meetings, 10/12/1872 and 29/7/1873.

fight. The Bank "was not accorded a very generous reception by the existing banks.[1] The application for the Act of Incorporation in the Colony encountered very strong opposition, partly on theoretical grounds and partly from those connected with other banks. When the Bank was opened it met with very severe competition at the hands of the older banks, much of the business at that time being transacted at a loss. . . . The progress of this bank seems to indicate that the Colonists . . . lean with favour to native institutions." [2] The local bank opposition was largely inevitable, but a belief that opposition in general was rather more marked than usual receives some confirmation from the fact that two years afterwards the "Colonial Bank of New Zealand" was incorporated locally. The prospectus showed that "the great want of a thoroughly Colonial Banking Institution for the whole Colony of New Zealand having been long felt, it has been determined . . . to supply the same by placing before the public the present carefully considered scheme." Half of the authorized capital was to be offered first and in no instance were any of the remaining shares to be offered for sale out of the Colony without having been first offered to the colonial holders.[3]

This, however, is an example of a fairly well-marked tendency in colonial banking, of which the nearest parallel instance is provided by the Colonial Bank of British Columbia. This was founded the year after the arrival of the chartered Bank of British Columbia, with a capital of $250,000, the prospectus [4] advertising that

[1] E.g. the Chairman of the Bank of New Zealand at the Annual Meeting of 23/10/1872 said: "I really cannot see where is the room or what is the position to be occupied by this new bank. . . . This is an attempt to get up another institution under the name of a 'colonial bank.' The day will come, I have no doubt, when there will be another 'colonial bank.' But this is a foreign institution got up and to be managed in London."

[2] Baxter, *Banking in Australasia*, London, 1883.

[3] Business transferred to the Bank of New Zealand in 1896. It is significant that in 1889, 50,000 shares of this bank were reserved by resolution of the Company, *for issue in London*, these to be considered English shares and not transferable from the English register.

[4] Quoted in Ross, *History of the Canadian Bank of Commerce*, Vol. I.

"the time has now arrived when the business of the Colony calls for a permanent bank of its own. It would be almost useless to lay before the public of British Columbia the many advantages afforded by having in the Colony a bank of its own where the Head Office and subsequent branches would be in the Colony, where the share-list would be composed of its own colonists and where the profits arising therefrom instead of being remitted to foreign shareholders, would be handed on to residents."

## CHAPTER V

# CENTRAL BANKING IN THE BRITISH EMPIRE

It is becoming increasingly clear that the development of separate central banking institutions in the Dominions and India will be a matter of great significance to the Imperial banks and will probably have important effects upon financial integration within the Empire. There are numerous questions awaiting solution, relevant to these considerations—how, for instance, the Central Bank proposes to control powerful English banks established locally—how far the Central Bank issue is in practice confused with " National Bank " proposals—whether the Central Bank was even projected with the idea of controlling great London banks operating in the Dominions or India, and so on. A statement of some of the historical facts seems, therefore, essential for judgment on the question firstly, whether orthodox Central Banks do in fact exist in the British Empire, and secondly, what effect their operations will have on the Imperial banks.

These questions are recent. Before the war, the only " Reserve Bank " of the Empire was the Bank of England, and one important monetary link between London and the financial centres of the Colonies and Dominions consisted in the fact that most of the Empire banks kept considerable amounts of sterling assets for the sake of being able to draw gold from London when it became necessary. Outside London, there was no ready indicator of changes in credit conditions in the shape of the fluctuating gold reserves of a central bank, and the next best thing was these fluctuating London balances of the commercial banks. If these grew smaller, the banks could move up money rates in the local areas and restrict over-importation. If they grew too large, exchange rates and, as a last resort, gold, could be moved.

Since the foundation of central banks however, more scientific control of the gold standard locally may be assumed, and ultimately, perhaps, less strain on the gold reserves of the Bank of England, but certainly a fundamental change has been effected in the position of the Empire banks, which it is of some interest now to investigate.

In Australia in 1911 (in common with most other countries before the war) when the Commonwealth Bank constitution was under discussion, there was no clear conception of what central banking meant. "I do not know what the Government mean by a central bank," said Mr. Glyn, a prominent critic of the Commonwealth Bank Bill. "Unless the term is explained, it has no importance." Examined from the standpoint of present-day theory, therefore, criticism was not very illuminating at the time. It is, however, sufficiently obvious from the debates that the promoters of the Bill in the Commonwealth Parliament had the idea at the back of their minds that the Commonwealth Bank might eventually become the "Bank of England" of Australia, although the proximate and more widely advertised causes for its foundation, were in the first case a desire to break the banking monopoly, and in the second case a desire to prevent a recurrence of the 1893 crisis.

The proved existence of the banking "ring" is interesting as evidence of the close understanding between local banks and English institutions, which now replaced the antagonism of the first part of the nineteenth century. Prime Minister Fisher, in introducing the Bill,[1] admitted that "it is no reflection on the present banks to say that there is a little understanding amongst them in regard to exchange and other matters," and other speakers confirmed that "the Bankers Union have practically decided that all rates of exchange and discount and all charges appertaining to bank-

[1] *H.R. Debates*, 15/11/1911.

ing, shall be based on one foundation "[1]—" in private banking there seems to be a sort of 'honourable understanding' in regard to interest charged."[2] Brett, in 1883, had mentioned that [3] "for years together more or less stringent agreements have been maintained for regulating the general terms of business, including the price of gold, the rates of exchange (inland, foreign and intercolonial) and the discount and other lending rates," but what must have been one of the earliest agreements[4] was made when

> "on 27th June 1859, the Bank of Australasia, the Union Bank of Australia, the Bank of New South Wales, the London Chartered Bank of Australia, the Bank of Victoria and the Colonial Bank of Australasia in Melbourne, acting together in the matter of the Government Railway Loan, announced their intention not to allow interest on current accounts and deposits at all, at the same time announcing a reduction of one per cent. in their rate of discount. The National Bank of Australasia joined in the movement the following day."

In London also, in 1875, an elaborate agreement was arranged on the same lines amongst the banks trading in Australia and New Zealand with offices in London.

The agreements were constantly mentioned by Australian bank chairmen after 1860, and it seems pertinent to ask whether Australia, after the financial invasion of 1853, was not "overbanked," so that some sort of combination was necessary in order to avoid failure of the weaker banks through unrestricted and suicidal competition. The idea of banking "rings" was, of course, no new one even at that time—there was the Association of New York Banks, and the Eastern Exchange Banks, after the crisis of 1866, had formed an Association in order to restrict competition. But it certainly seems as though the Australian sample was, by the twentieth century, of a very thoroughgoing order, although it was vigorously defended as a guarantee of banking uniformity and co-operation. It was clear, at any rate, that

[1] Mr. Ozanne, *H.R. Debates*, 22/11/1911.

[2] Mr. Moloney, *H.R. Debates*, 23/11/1911.

[3] Manager of the London Chartered Bank of Australia. His paper on "History and Development of Banking in Australasia" appears in *Journal of the Institute of Bankers (England)* for 1883.

[4] Mentioned in Baxter, *Banking in Australasia*.

"breaking" this ring in accordance with the orders of the Labour Government which founded the Commonwealth Bank, would involve opening branches in every part of the continent to compete directly with the other banks. But the Commonwealth Bank's competition in the Exchange and Money Markets has obviously tended to injure its position as a pure "reserve" bank, which should not engage extensively in ordinary banking business on account of its obligation of maintaining specially liquid assets, and the wilful introduction of the competitive element in the Bank's policy at this early stage, was perhaps regrettable.

In addition to providing a solvent for a potentially inconvenient banking monopoly, the Commonwealth Bank was expected to help prevent a recurrence of the 1893 crisis. "The Commonwealth Bank, having at its back the resources of Australia and behind it the security of the nation, will never place its depositors in the position so many occupied in the nineties when private banking companies failed and brought destitution and ruin to thousands," [1] and it will be able to afford corresponding help to the other banks when required. This argument, again, needs some examination in the light of the facts of the crisis, which is also interesting as an object lesson in some of the weak points of Empire banking in general.

The crisis undoubtedly had its origin in the excessive amount of capital which poured into the Colonies from England for at least twenty years before 1893 and which, unable to find legitimate employment through the normal banking channels, was eventually diverted for speculative purposes. "The mild and beneficent stream of capital flowing into the country up to 1880 was changed to a flood during the five years 1881–5 when . . . £69 millions reached Australia, and to a deluge 1886–90 when the sum introduced overpassed £100 millions." [2] The actual panic was precipi-

[1] Mr. Moloney, *H.R. Debates*, 8/9/1911.

[2] Coghlan, *Labour and Industry in Australia*, p. 1635. This contains the best account of the crisis. For short general accounts, see *The Australian Banking Crisis*, N. Cork (London Manager of the Commercial Banking Company of Sydney), *Journal* of the Institute of Bankers (England), 1894, or paper on the same subject read before the Political Economy Section of the British Association, September 1893, by Dr. Gairdner,

tated by several factors. In London, there was the unfortunate quarrel of the Victorian Government with the London and Westminster Bank over the placing of new loans, and the failure of the Bank of England to place the Queensland Government Loan in May 1891, the issue having to be disposed of subsequently at a greatly reduced price in the midst of a dispute with the Bank.[1] The market for colonial securities was not in particularly good odour at that time therefore, and the situation was not improved by the repercussion of the Argentine crisis of 1890 on London, or the after-effects of the Baring crisis. The attitude of capitalists at home, moreover, was particularly important because of the large amount of short-term investment in the Colonies, through the medium of Australian banks with London offices.

In Australia, the land boom which was at its height in 1891 in Melbourne, began its inevitable collapse, and the failure of numerous building societies and urban and suburban land companies unfortunately brought down a number of banks connected with them, the first signs of the storm being thus discernible when the Mercantile Bank of Australia suspended in 1892, followed some months afterwards by the Federal Bank of Australia. Subsequently a suspicion that the Commercial Bank of Australia had advanced too freely on securities based on real estate was responsible for a disastrous run upon this bank, which suspended in April 1893. The first English suspension, that of the English, Scottish and Australian Chartered Bank, occurred eight days afterwards on 12th April, by which time the crisis had fairly begun.

The panic soon spread to New South Wales and Queens-

General Manager of the Union Bank of Scotland. Contemporary periodicals give full but sometimes inaccurate accounts.

[1] Loans from London became a necessity for the Queensland Government at a particularly awkward time like this, because the Government decided in 1880 to transfer its accounts from the Union Bank of Australia to the Queensland National Bank, in order to restrict the utilization of the money to the Colony. This was a fatal mistake; the Government feared to embarrass the Queensland National, a much weaker institution whose opportunities for legitimate profit were much more circumscribed, by calling suddenly for its money, and recourse to London was consequently necessary.

land, and the situation at this stage was made very much worse by the inequitable scheme of reconstruction adopted by the Commercial Bank of Australia, under which depositors were compelled to accept Preference Shares in the reconstructed concern up to one-third of their deposits, and deposit receipts payable in five years from the original due date, for the other two-thirds. The principle of the scheme had been advanced by the New Oriental Bank Corporation (just before its collapse in 1892) in a most extraordinary Circular to the Eastern Banks,[1] and the idea figured prominently in most of the other reconstruction schemes, the object being to provide negotiable and readily saleable securities. In the case of the English, Scottish and Australian Bank, the Debenture Stock and Inscribed Deposit Stock in which depositors were paid, were made perpetual debts, and this somewhat arbitrary treatment of depositors appears to have contributed not a little to the spread of panic. By the date of the final suspension of 17/5/1893, three Australian banks were in liquidation with liabilities of £6 millions and thirteen others (including two London institutions) had suspended with liabilities of £105 millions.

Three phases of the crisis need special comment from the present point of view. In the first case, resolute leadership might have saved most of the banks. In fact, they were each too concerned for their own safety, and this is what gives point to the arguments of the Commonwealth Bank Bill supporters. The Australian banks, with the experience of England in the Baring crisis fresh before them, failed lamentably to seize their opportunity and vindicate the usefulness of the "Association" principle which was to be so strenuously defended in 1911.[2] The reference to the Association by Dr. Earle Page (Government Treasurer) in introducing the Commonwealth Bank Bill of 1924 seems therefore to be well merited: "We have a number of banks which though

[1] Quoted in *Bankers' Magazine*, July 1892.

[2] The crisis, in fact, split the Associations. The period of cheap money which followed 1893 saw the reconstructed banks paying their depositors 4–4½ per cent. under their schemes of arrangement, whereas banks which did not suspend had only to offer 3 per cent. to get all they wanted. Agreements on rates were therefore out of the question.

loosely associated for some purposes scarcely can express a corporate opinion. Chiefly mindful of their own interests, which is but natural, they can have no such regard for the public welfare as is undoubtedly required."

The erratic way in which the situation was actually handled by the banks confirms this. The published resolution [1] of the Associated Banks, dated 28th March, 1892 (three weeks after the suspension of the Mercantile Bank of Australia), stated that "the Associated Banks in Melbourne have agreed upon mutually satisfactory conditions upon which they will extend their joint support to any one of their number requiring it." A further Memorandum of 28th January, 1893, showed that assistance had not been asked by the Federal Bank, which accordingly suspended on the 30th. So far, then, the position was not essentially altered, and when the Melbourne papers published on 14th March an official intimation that the Government of Victoria had resolved to afford their cordial co-operation, it appeared naturally as if no efforts were being spared to allay the panic. In their statement next day, however, the Associated Banks redefined their arrangement, to read "that they will render financial assistance to each other on such terms and to such an extent as may seem justifiable to each of them, if and when the occasion arises," and this was obviously not so satisfactory. Further, when the Commercial Bank on 4th April proposed privately a resolution that the "Associated Banks of Victoria have this day unanimously agreed to give their united financial support to that institution to such extent as may be required," the banks declined to support this and the proposition that the Government and the banks between them should contribute to a total fund of £1,900,000 to help, was equally refused by the Commercial Bank, "as the assistance available might not be large enough to carry them through the time necessary for reconstruction, and secondly that it would not be proper to lodge securities against the advance." The regrettable suspension of the Commercial Bank on the 5th April followed.

No worthy lead was given by the Victorian Government

[1] *Australasian Banking and Insurance Record*, 17/8/1893.

either. The hasty declaration of a moratorium from May 1 to 5, which nearly precipitated complete disaster, was rightly ignored by the Bank of Australasia and the Union Bank, and the Bank of New South Wales followed their example by re-opening on 2nd May. "The action in this case of the two English banks was most highly appreciated in the colony as it was owing to their action, the excitement abated." [1] A concerted move in this direction by *all* the banks, would have been far more effective. The proclamation of 16th May in New South Wales (under the Legal Tender Act of 3/5/1893) certainly showed greater discretion, as it stopped the panic by making the notes of four of the principal banks legal tender for six months, but most writers on the crisis admit that there was a striking lack of co-operation amongst the Sydney banks at the time.

A further factor in the crisis is worthy of note. In at least two clear cases, the shareholders of Anglo-Australian banks took fright at the course of events in Australia and unloaded their shares in a panic, with disastrous results in the Colonies. One colonial authority says [2] of the London Chartered Bank of Australia and the English, Scottish and Australian that "their shares were a prey to panic in London before any withdrawals of deposits occurred here." When the lack of confidence of the English shareholders in their own institutions began to be reflected in the price of the shares, English and Australian depositors naturally began to be fearful for their money, and after the publication of the reconstruction terms of the Commercial Bank of Australia, a sudden disastrous run commenced in each case and at each end. The behaviour of the shares of these newer "gold-rush" banks as compared with those of the older English institutions, is instructive. The quotations (from the *Bankers' Magazine*) appear overleaf.

The English shareholders are to blame in this, but it seems likely that in similar circumstances, slow-going and not too successful Anglo-Colonial banks such as the English Scottish

[1] N. Cork, *op. cit.*

[2] Letter of Governor Dibbs, 12/1/1894, to Agent-General of New South Wales, on the Banking Crisis, *Australasia Pamphlets*, Vol. II, No. 67, C. O. Library.

| | Share. | Paid. | Closing Prices. | | | | |
|---|---|---|---|---|---|---|---|
| | | | 3/1/91. | 12/1/92. | 7/1/93. | 4/2/93. | 4/3/93. |
| | £ | £ | | | | | |
| Bank of Australasia | 40 | 40 | 99–101 | 95–97 | 84–86 | 88–90 | 82–84 |
| London Chartered | 20 | 20 | 29–30 | 25½–26½ | 21–22 | 21½–22½ | 20½–21½ |
| English Scottish | 20 | 20 | 34–36 | 29–30 | 19–20 | 14–16 | 14–15 |
| Union Bank | 75 | 25 | 66–68 | 63–65 | 56–57 | 57–58 | 51½–52½ |

| | Share. | Paid. | Closing Prices. | | | |
|---|---|---|---|---|---|---|
| | | | 11/3/93. | 18/3/93. | 25/3/93. | 1/4/93. |
| | £ | £ | | | | |
| Bank of Australasia | 40 | 40 | 82–84 | 82–84 | 84–86 | 84–86 |
| London Chartered | 20 | 20 | 20½–21½ | 20½–21½ | 20½–21½ | 20½–21½ |
| English Scottish | 20 | 20 | 14–15 | 12½–13½ | 11–13 | 8–10 |
| Union Bank | 75 | 25 | 51½–52½ | 53–54 | 54½–55 | 53½–54½ |

| | Share. | Paid. | Closing Prices. | | | |
|---|---|---|---|---|---|---|
| | | | 8/4/93. | 15/4/93. | 22/4/93. | 29/4/93. |
| | £ | £ | | | | |
| Bank of Australasia | 40 | 40 | 76–79 | 75–78 | 73–77 | 63–67 |
| London Chartered | 20 | 20 | 18–20 | 13–15 | 10–11 | — |
| English Scottish | 20 | 20 | — | — | — | — |
| Union Bank | 75 | 25 | 48–50 | 48–50 | 32½–33½ | 32–33 |

and London Chartered were,[1] might equally be upset (despite the intervention of any local Central Bank) by panicky shareholders who live thousands of miles from the scene of operations, and can depend for information only upon rumour and the reassurances of the London office. These cases contrast very strongly with some of the local banks such as the Commercial Banking Company of Sydney, whose shares were kept at a premium by the shareholders even after its suspension.

A last point of interest in connection with the crisis is the denunciation of the system of transferring home deposits to Australia, as in part responsible for the trouble. "It is indeed not too much to say," wrote Governor Dibbs,[2] "that

[1] The agitation of 1853 against these new banks will be remembered. The suggestion, then, that they were superfluous obtains new significance now.

[2] Letter to Agent-General for New South Wales, quoted above.

the banking panic here largely arose through British withdrawals and was intensified by fears that British depositors would secure their money first."

The deposits were to a large extent Scotch. In 1883, "Edinburgh seems honeycombed with agencies for collecting money not for use in Australia alone, but for India, Canada, South America, everywhere almost, and for all purposes, on the security of pastoral and agricultural lands in Texas, California, Queensland and Mexico."[1] The proverbial thriftiness of the Scotch, their appreciation of the extra ½ or 1 per cent. to be had from the colonial banks as against their own institutions, the attractions for many of them of banks in which their own relatives were employed,[2] are reasons which have been advanced in explanation of this. The fact is that nearly all the Australasian banks, whether or no they had London offices (twenty-one of them had in 1890), advertised freely for deposits in the London and Edinburgh papers. The first two failures of the crisis advertised in 1890 a quite excessive number of deposit agencies—the Federal Bank of Australia Ltd. (with London office) had agencies at Edinburgh (two), Glasgow, Dundee, Aberdeen, Dublin, Belfast, and Cork, and the Mercantile Bank of Australia (with London office) had agencies at Edinburgh, Glasgow, Dundee and Aberdeen. Deposits of £50 and upwards were received for fixed periods from six months to five years. At Deposit Agencies like these, an unfortunate precedent had been established by the banks of paying out long-term deposits without due notice, upon deduction of interest, and this practice, to which the banks felt bound to adhere during the crisis, naturally aggravated the trouble. Approximately the same system was followed by the numerous Australian land and financial companies floated at the time. The Deposit position of the banks at the time of their suspension can be illustrated as follows (figures from Mr. Cork's paper already quoted. "British

[1] Baxter, *Banking in Australasia*, London, 1883.

[2] At this time the Australian banks, if staffed at all from overseas (a common practice then amongst all the banks), were served by Scotsmen, the better-paid posts in the Eastern Exchange banks generally going to Englishmen.

Deposits" are obtained by subtracting Quarterly Average figures (as near the Balance Sheet dates as possible) of Colonial Deposits from the Balance Sheet figures of Total Deposits. They are thus only approximately correct):

(000's omitted.)

| Bank. | Mercantile of Australia. | Federal of Australia. | Commercial of Australia. | English Scottish. | London Chartered. | Australian Joint Stock. |
|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ |
| Date of Suspension | 5/3/1892 | 28/1/1893 | 4/4/1893 | 12/4/1893 | 25/4/1893 | 20/4/1893 |
| British Deposits | 1,000 | 435 | 5,100 | 800 | 3,000 | 3,556 |
| Colonial Deposits | 700 | 1,522 | 5,400 | 3,830 | 2,842 | 6,740 |

| Bank. | Standard of Australia. | National of Australia. | Colonial of Australia. | Bank of Victoria. | Queensland National. |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| Date of Suspension | 28/4/1893 | 1/5/1893 | 5/5/1893 | 10/5/1893 | 15/5/1893 |
| British Deposits | 250 | 1,300 | 150 | 1,300 | 4,000 |
| Colonial Deposits | 550 | 6,065 | 2,850 | 4,400 | 4,300 |

| Bank. | Bank of N. Queensland. | Commercial Banking Co. of Sydney. | City of Melbourne Bank. | Royal of Queensland. | TOTAL. |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| Date of Suspension | 15/5/1893 | 16/5/1893 | 16/5/1893 | 17/5/1893 | — |
| British Deposits | 90 | 530 | 2,650 | 300 | 24,461 |
| Colonial Deposits | 206 | 9,367 | 1,100 | 465 | 50,337 |

The comparative 1892 figures for the remaining solvent banks (from the *Statist*, 15/4/1893) are interesting:

| Bank. | Bank of New S. Wales. | Bank of Australasia. | Union Bank of Australia. | City Bank of Sydney. | Commercial of Tasmania. |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| Date of Balance Sheet | 30/9/1892 | 10/10/1892 | 31/8/1892 | 31/12/1892 | 31/3/1892 |
| British Deposits | 2,815 | 3,148 | 5,053 | 29 | 184 |
| Colonial Deposits | 17,745 | 11,979 | 12,696 | 1,385 | 1,600 |

| Bank. | Bank of Adelaide. | Royal of Australia. | National of Tasmania. | Western Australian Bank. | TOTAL. |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| British Deposits | 33 | 262 | 14 | 5 | 11,543 |
| Colonial Deposits | 1,093 | 131 | 303 | 430 | 47,362 |

These figures suggest unmistakably some correlation between ability to withstand the crisis and a low proportion of external deposits.

In general, there is much to be said against the system of

collecting external deposits at all, for use in a young and undeveloped country. It may lead to a much greater degree of financial integration between the home monetary centre and the Colony than is sometimes desirable, since the overseas banks are always exposed to the effects, at awkward moments, of sudden monetary drains at home originating from causes which have nothing to do with the Colony. The attraction in the case of Australia seemed nearly irresistible—money could be borrowed at home at $3\frac{1}{2}$–5 per cent. and lent in the Colony at double those rates, and the recent (1889) conversion of Consols from 3 per cent. to $2\frac{3}{4}$ per cent. seemed to indicate that home deposits could probably be left overseas with safety for a comparatively long time. But apart from the injudicious manner in which the money was re-lent, observance of the plain general principle should have restrained the banks. It is obviously dangerous to collect short-term deposits in Great Britain and transfer them overseas at such a rate that quick assets in London are no longer equal to quick liabilities, but it is nearly as dangerous to transfer *long-term* deposits, since the banks, in order to earn the necessary profits to pay high rates, are driven to non-banking business. Large amounts of deposits of six months and upwards make this course inevitable, and, alterations in monetary conditions apart, either the home depositor or the colonist will realize this sooner or later; once withdrawals start from one end, the banks are bound to be faced with equally heavy drains at the other, and there is no doubt that, in the case of Australia, the fear of heavy withdrawals by the British depositor on account of this increasingly manifest element of weakness, led to colonial withdrawals on a large scale.

It is possible, had the crisis been a purely domestic one (when a Reserve Bank would have been of the greatest use), that deposits might have been taken from the weaker banks and left with the stronger ones, as there were, in fact, great differences between the known solvability of the various banks. The stronger institutions might then have dispensed a discriminating help to the others and the worse effects of the crisis averted. But the fact that English or Scotch

deposits, if withdrawn, would inevitably go to English or Scotch banks, made this sort of help impracticable. Again, a domestic crisis would have probably been short and sharp, and after it was over, the banks would not have had to fear that slow and irresistible drain of money to Great Britain which was bound to occur and almost equally certain to go on for a long time, as deposits matured. This is the justification for suspension; the banks dreaded having to face an exhausting and prolonged drain from their external depositors which might have placed them in worse difficulties later and called for inequitable sacrifices on the part of Australian creditors.

As regards internal deposits, there is no evidence that the peculiar position of the leading English banks precipitated a run upon their colonial deposits sooner than on the deposits of the local banks. The following table (based upon the "Quarterly Average" figures) shows the movement of the principal deposits during the crisis. As some of the banks were calling in advances during the period, the drain may appear from the table somewhat larger than it actually was.

Liabilities on Deposits within the Colonies
At the end of each Quarter.
(000's omitted.)

| Bank. | Victoria. | | | | New South Wales. | | | |
|---|---|---|---|---|---|---|---|---|
| | 1892. 4th. | 1893. 1st. | 1893. 2nd. | 1893. 3rd. | 1892. 4th. | 1893. 1st. | 1893. 2nd. | 1893. 3rd. |
| | £ | £ | £ | £ | £ | £ | £ | £ |
| Bank of New S. Wales . . . | 3,745 | 3,731 | 3,441 | 3,057 | 9,410 | 9,519 | 9,298 | 9,355 |
| Commercial of Sydney . . . . | — | — | — | — | 10,081 | 10,383 | 9,828 | 9,335 |
| Bank of Australasia | 6,170 | 6,346 | 6,033 | 5,314 | 2,418 | 2,459 | 2,242 | 2,099 |
| Union Bank . . | 4,048 | 4,218 | 4,425 | 4,017 | 2,304 | 2,439 | 2,354 | 2,178 |

| Bank. | Queensland. | | | |
|---|---|---|---|---|
| | 1892. 4th. | 1893. 1st. | 1893. 2nd. | 1893. 3rd. |
| | £ | £ | £ | £ |
| Bank of New S. Wales . . | 1,866 | 1,895 | 1,856 | 1,848 |
| Commercial of Sydney . . | 877 | 905 | 871 | 876 |
| Bank of Australasia . . . | 501 | 520 | 530 | 536 |
| Union Bank . . . . . | 738 | 759 | 756 | 779 |

The crisis had many important effects both direct and indirect, immediate and deferred, and it is difficult to over-emphasize the lasting mark which it left on the whole Australian banking system. It saddled the banks with the burden of even higher capitalization than before, capital being nearly doubled under the reconstruction schemes, and future revenue being computed upon an excessively sanguine basis ; it accelerated the amalgamation movement ; it had an extraordinary purging effect upon the banks ; and it provided one of the best possible arguments for a Commonwealth Bank. Banking operations in Australia became restricted to much more cautious limits after the crisis, and opinion hardened perceptibly against any more " invasions " like that of 1853, which introduced into the country the very banks which fared so badly in the crisis. Moreover, the crisis itself helped to scare away any other " foreign " bank with designs on Australia, with the result that no large foreign banking invasion has taken place since. The Anglo-Australian banks which passed through the fire with the local institutions are identified with no other country but Australia, and both groups of banks have now equally well re-established themselves in the estimation of the business community.

The purification process which brought about these effects is suggested by the following table, based on the " Quarterly Averages " for the first quarter of every third year (and

PROPORTIONS OF SOME ITEMS IN THE AUSTRALIAN BANKING RETURNS

| | Coins and Bullion × 100. / Notes and Deposits. | Deposits bearing Interest × 100. / Total Deposits. | Advances × 100. / Deposits. | External Deposits. |
|---|---|---|---|---|
| | | | | £ |
| 1887 | 16 | 69 | 122 | (June) 30½ mn. |
| 1890 | 17 | 68 | 124 | (Sept.) 36 mn. |
| 1893 | 18 | 72 | 121 | (Mar.) 37½ mn. |
| 1896 | 26 | 62 | 113 | (June) 24 mn. |
| 1899 | 22 | 58 | 108 | (June) 14 mn. |
| 1902 | 21 | 56 | 101 | (June) 17½ mn. |
| 1905 | 20 | 60 | 89 | (June) 17 mn. |
| 1908 | 22 | 56 | 90 | (June) 16½ mn. |
| 1911 | 24 | 55 | 80 | (June) 15 mn. |
| 1914 | 25 | 54 | 79 | (June) 16½ mn. |

excluding the Commonwealth Bank). The "External Deposits" are computed as indicated above.

The cautious advance policy employed after 1893, the increase of cash reserves, and the reduced proportion of interest-bearing (that is, roughly, long-term) deposits, are particularly noticeable. The British deposits formerly to a large extent left with Australian banks, are now taken principally by the Eastern Exchange banks, with Deposit Agencies in Great Britain.

After the crisis, the privileges of the Australian banks, as might have been expected, were gradually encroached upon, especially subsequent to the creation of the Commonwealth. First, their note-issuing privileges were abolished; the Notes Act of 1910 substituted Commonwealth notes for the State issue of Queensland, and the Bank Notes Tax Act imposed a heavy tax upon all commercial bank notes in circulation, the Commonwealth notes which were to replace them being partly secured by State and Federal securities issued to meet the cost of public works. Secondly, the Commonwealth Bank Act was passed 22nd December 1911.

It is unfortunate that the desire to set up a banking standard and the fear of a banking monopoly led the Government then in power to give the Commonwealth Bank full powers of competition, to the injury of its "reserve bank" functions, because as a result, it is not nearly so well fitted by its constitution as it might be, to take charge in a banking crisis like that of 1893. The powers of this bank are extraordinarily wide; it may carry on a general banking business, acquire and hold land, receive deposits, make advances, discount bills, issue drafts, deal in exchanges, specie, gold dust and precious metals; it may borrow money and "do anything incidental to any of its powers." It has power to open branches anywhere within the Commonwealth and outside this limit with the Treasurer's approval. Absolute control was at first vested in the Governor, who was responsible to no Board of Directors and who could make any advances on any security he thought sufficient. The Bank was even independent of shareholders; half of the net profits were to be placed to Reserve and the other half to a

Redemption Fund to be used for repaying Treasury loans, but in fact the Bank was *capitalized* by a Treasury loan and not by an issue of debentures as provided in the Act, and the Governor's position was therefore one of unusual power. By Section 33 of the Act, " the Commonwealth shall be responsible for the payment of all moneys due by the Bank."

So far, then, from being an orthodox Central Bank, with *exceptional* powers of intervention in monetary affairs, the Bank was empowered and expected to compete with the other commercial banks in their day-to-day business. Thus, in five years it had opened thirty-six branches. But the idea of a fully competitive State Bank was hardly one which satisfied the real need, and comments to this effect were frequent at the time of the Bank's foundation.

> " It will probably take some years to unmask the fallacy that a Government Bank controlled by political amateur financiers, can add anything to the well-being of a community whose financial requirements are so vigorously catered for as they are in Australia. . . . The service will be a hotbed of rank nepotism." [1]

The scheme " foreshadows a bank operating on lines that have no parallel at present in responsible communities on this planet." [2] Again,

> " The establishment of a Commonwealth Bank is not only unnecessary but is likely to be a source of danger, inasmuch as its supreme control is to be political. . . . The Commonwealth Bank . . . will be extremely costly to organize and conduct and it will be unable if soundly managed, to offer facilities to the public greater than those which already exist. The Government account will be of little or no benefit to it—possibly in bad times a source of weakness and danger. Its London branch when established will be conducted at a loss. The proposal that it shall manage the portion of the Australian public debts incurred in Great Britain is a preposterous one." [3]

Such criticism as there was, was not really of a helpful nature, partly because of the political origin of the Bank and partly because the essential attributes of a " reserve bank "

[1] *Australasian Banking Record*, 21/11/1911.
[2] *Bankers' Magazine of Australasia*, 30/9/1911.
[3] *Australasian Banking Record*, 21/2/1912.

were not appreciated, no expert Commission being set up to guide the Parliament or the country in the matter. The local bankers defined their attitude with commendable clarity. "If the Commonwealth Bank is to be worked on safe lines, I feel sure it will not come up to the expectation of its supporters, and if worked for political purposes, it must come to grief."[1] Again, "The proposed bank does not appear to cover any ground not already occupied by existing institutions and is certainly not called for by the public."[2] The English banks, in keeping with tradition, were more cautious.

"A strong central institution worked on sound, conservative lines, might conceivably be of service in providing a rallying point with a steadying effect, especially in times of financial strain, and evidently the promoters have something of this kind in view as one of the possibilities of the future, from references made to the prospect of the bank becoming the bank of banks rather than a mere moneylending institution."[3]

In another important case:

"Of course we do not welcome a new and powerful competitor, but if the Commonwealth Bank is managed on sound financial lines with the intention of making profits for itself and not of becoming a burden on the taxpayer, I see no great reason to fear it. Such an institution if ably managed and backed by the State may become a source of great strength to the community and may be able to afford valuable financial assistance to other financial institutions in time of trouble. I hope that the Commonwealth Bank may some day hold in Australia somewhat of the position that the Bank of England holds in this country."[4]

The banking position in this comparatively small community showed not much scope for a new institution. A population of barely 4½ millions in 1911 was served by twenty-one banks, with combined paid-up capital and reserves exceeding £27 millions (four English banks furnishing nearly £6 millions of this), with a network of over 1,900 branches between them and with a list of advances within

[1] Chairman's speech, Colonial Bank of Australasia Annual Meeting, Melbourne, 31/10/1911.
[2] Ibid., Royal Bank of Australia Annual Meeting, 30/10/1911.
[3] Ibid., London Bank of Australia Annual Meeting, 30/4/1912.
[4] Ibid., Bank of Australasia Meeting, 28/3/1912.

the Commonwealth totalling £121,450,000. In spite of its position as banker to the Federal Government, therefore, the Commonwealth Bank did not have an easy task to establish itself, and this, of course, makes it improbable that it will resign its present position as a commercial bank without a struggle. At the same time, it has kept steadily in mind what one must conclude were its intended responsibilities by maintaining in practice a very liquid position. The table illustrates this, the figures consisting of items selected from the December Balance Sheets (Note Issue Department excluded):

| | 1912. | 1915. | 1918. | 1921. | 1924. | 1927. |
|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ |
| Coin, Bullion and Cash Balances | 185,011 | 3,937,217 | 6,137,277 | 4,872,995 | 7,774,168 | 1,230,215 |
| Australian Notes | — | 5,567,650 | 15,751,256 | 2,684,893 | 5,350,032 | 3,577,490 |
| Money at Call in London | — | 3,180,000 | 12,215,000 | 10,715,000 | 10,630,000 | 10,111,000 |
| Government Securities | 120,401 | 7,103,409 | 15,747,293 | 34,732,901 | 39,021,464 | 53,114,543 |
| Total Assets | 616,071 | 16,768,466 | 70,132,671 | 70,622,614 | 78,231,133 | 93,340,923 |

Further, "the bank does not enter into or become a party to any agreements under which the other banks observe certain rates in the conduct of their business, but it does not undercut the other banks in their exchange rates, and has adopted fixed rates of interests on fixed deposits and for overdrafts." [1]

The process of trying to turn the Commonwealth Bank into an orthodox Central Bank began (at the height of the inflationist period) with the passing of the 1920 Amendment to the Bank Act,[2] which was designed to have the effect of turning over the Federal Note Issue to an "independent" Board of the Bank, so as to enable questions of fluctuations in the amount of the issue to be dealt with exclusively by an independent body, without direct responsibility being placed upon the Treasurer of the day. Fluctuations that might then arise, would not bear a political appearance,

[1] Mr. Denison Miller, the Governor, reported in the *Bankers' Magazine*, September 1918.
[2] No. 43 of 1920.

though this naturally led to the Government being charged with a desire merely to shield itself from the unpopularity of a deflationist policy without effecting any really constructive banking reform. The Board was composed of the Governor of the Bank and three other directors appointed by the Governor-General, one an officer of the Commonwealth Treasury. Sir Joseph Cook said of the new notes to be issued by the Board that [1] "they are not to be Commonwealth Bank notes because of the transfer but will still be national notes signed by the Governor of the Bank on the one hand, the Secretary of the Treasury . . . on the other." According to the Act, however (Sec. 60, H), "the notes shall (*a*) be printed and issued by the Board from the Commonwealth Bank; (*b*) bear the promise of the Treasurer to redeem the notes in gold coin . . . on demand at the Head-office of the Commonwealth Bank." The connection between the Commonwealth Bank and the Note Issue Board was therefore close enough to make easy the next step—that is to give the Bank sole control of the currency in exactly the same way as a normal Central Bank. The gold reserve against the new notes was one-fourth, and the remainder was represented by deposits with any bank, United Kingdom, Commonwealth or State securities or trade bills up to 120 days' currency. The profits on the note issue, less the payment of a commission to the Bank, went to the Treasury.

The next step was the Commonwealth Bank Act, (No. 15) of 1924, foreshadowed by Sir Joseph Cook in the speeches on the Amendment of 1920 and introduced partly as a result of the disordered post-war exchange situation and the charges of mismanagement made against the Notes Board. The chief provisions were:

(*a*) A £20,000,000 capitalization scheme for the Bank, to help maintain its financial prestige.

(*b*) An order that clearing settlements were in future to be effected by cheques on the Commonwealth Bank. It was also intended that the commercial banks should keep their cash reserves with the Bank as well as clearing accounts, in the orthodox central banking manner.

[1] *H.R. Debates* on the Bill, 4/11/1920.

"There is to be no compulsion as to the amount to be kept by any bank at credit with the Commonwealth Bank, but it is to be hoped that confidence in the new management will bring about voluntary placing of considerable credits with the Commonwealth Bank just as is the case with the Bank of England which holds practically all the cash reserves of the ordinary banks and which in the true sense of the term is a bankers' bank." [1]

With the Bank in the position of a competitive institution the anomaly becomes immediately apparent, for if the Australian banks left their reserves with the Commonwealth Bank, they would have no guarantee that the same money might not be used against them in day-to-day business.

(*c*) The appointment of a Board of Directors consisting of the Governor, the Secretary to the Treasury, and six persons who "are or have been actively engaged in agriculture, commerce, finance or industry"; this Board to manage the Note Issue. This was an entirely new departure, as formerly the Bank had been directed solely (and very ably) by Sir Denison Miller.

(*d*) The Bank to discount and rediscount bills of exchange at a published rate after a date to be fixed by proclamation. This is still not in operation (1929).

(*e*) The Board to issue Australian notes to the Bank or to other banks in Australia in exchange for money or securities lodged with the London branch of the Bank. This provision was utilized once, a short time after the Act was passed, in order to relieve the abnormal exchange situation in 1924, when balances in London were excessive, expensive to return, and when there was considerable monetary stringency in Australia. The actual arrangement provided for a maximum issue of £15 million, the notes to be lent to the Australian banks at 4 per cent. purely as a temporary advance to finance wool and wheat exports. The scheme has not been in operation since, but its effect was to place Australia on a sterling exchange standard. Legally it could have been put into force before, because by the 1920 Amendment, the Commonwealth Bank could have issued notes in Australia against British Government securities and thus established a sterling exchange standard in this way.

[1] Speech of the Treasurer in introducing the Bill.

At any rate, in putting forward the Bill, "the Government believes that it is proposing all that can be done by legislation towards bringing about a true system of central banking." This remark of the Commonwealth Treasurer, Dr. Earl Page, in introducing the Bill into the Commonwealth Parliament, sums up a speech of great interest. In urging the fitness of the Bank to assume its new functions, the Treasurer said that most of its profits came from holding the Government accounts, and gave the following table of credit balances on the Treasury current account with the Bank on the dates mentioned :

| | £ |
|---|---|
| 30th June, 1915 . . . . . | 789,000 |
| 1916 . . . . . | 16,513,000 |
| 1917 . . . . . | 19,135,000 |
| 1918 . . . . . | 18,852,000 |
| 1919 . . . . . | 20,548,000 |
| 1920 . . . . . | 10,128,000 |
| 1921 . . . . . | 7,323,000 |
| 1922 . . . . . | 9,045,000 |
| 1923 . . . . . | 5,576,000 |

"On one occasion," he stated, "the current account of the Treasury reached £40 millions. The Bank did not pay the Treasury any interest on these immense sums." It therefore does not need to pursue a policy of aggressive competition and the commercial banks should consequently have no fear that the Bank would take advantage of its position. This sounded convincing and it seemed that the successful career of Australia's now orthodox Central Bank, should have been completely assured by the 1924 Act.

It is unfortunate that with the Commonwealth Bank, the political factor cannot be ignored however. The Treasurer, in concluding his speech, had "placed before honourable members the proposals of the Government for the complete transformation of the Commonwealth Bank and the Notes Board into a central bank—a bank of banks—a bank of issue, deposit, discount, exchange and reserve." But this intention was violently resisted by the Labour Opposition, who remembered one of the two most important reasons why the Labour Government introduced the original Bank Bill in 1911. The Opposition objected to the Board of Directors

and to the principle of a central bank " assisting the private banks with public money."

" The Commonwealth Bank is now to be the subject of the knavish depredations of the money changer, the commercial speculator, and of vested landlordism. Those interests would barter the soul of a nation if it would improve their own balance by one shekel. . . . The Government undoubtedly desires to place the bank in subjection to private banking institutions and so prevent it from fulfilling the real purpose for which it was established. . . . It " [the Bill] " is intended in the first place, as the Treasurer has told us, to stabilize the money trust of Australia, and in the second place to provide some very good jobs for friends of the Government." [1]

" The Bill is nothing less than an attempt to kill the Bank." [2] As a result of this opposition the Bill had a somewhat stormy passage, and there is a likelihood obviously that changes of Government in Australia might radically alter the destiny of the Bank.

The Government, however, itself seems dissatisfied with the functional simplicity of a pure central bank (in view of the war record of the Commonwealth Bank, this is perhaps not surprising) and seems desirous of combining in the one concern all sorts of miscellaneous institutions. Besides its Savings Bank Department (whose accounts, it is true, are now separately presented), the Bank has now a Rural Credits Department, set up in 1925 and financed by loans from the Treasury, and a proportion of the annual profits of the Note Issue. The Bank is also to issue debentures and advance money to the new department, which is to lend money to banks, co-operative associations and corporations on the security of primary produce, for one year, the object being to promote pooling arrangements in connection with primary produce such as wool, grain, dairy produce, fruit, cotton and sugar. The addition of all these other activities to the main purpose (as the Government now wish it to be understood) of the Bank must distract the responsible administration even if it does not lead to any direct clash of financial interest or

[1] Mr. Makin, Commonwealth Bank Bill Debate, 2/7/1924.
[2] Mr. Charlton, Commonwealth Bank Bill Debate, 20/6/1924.

confusion between commercial and "non-commercial" business.

The latest phase of the central banking movement in Australia must be briefly noticed. It was foreshadowed in an announcement of Sir Robert Gibson, Chairman of the Commonwealth Bank,[1] that Sir Ernest Harvey, Comptroller of the Bank of England, was to pay a visit to Australia with a view to investigating local banking conditions on the spot, and making recommendations to the Board of Directors so that, as far as possible and wherever advisable, the central banking system of Australia might be co-ordinated with that of the Bank of England and the other central banks of the Empire.

> "Although since the functions of the Commonwealth Bank of Australia were enlarged by the Act of 1924 to embrace central banking the bank has met all requirements of the banking community, it is felt that personal discussions on the subjects of central banking and control of the note issue with so eminent a banker as Sir Ernest Harvey, who is a recognized authority on these higher branches of finance, must result advantageously to the working of these most important functions of the Commonwealth Bank. . . ."

Sir Ernest on his arrival had several conferences with Australian bankers and directors of the Commonwealth Bank, the proceedings at which were not made public. A small committee representing the banks was formed for the consideration of the establishment of a Central Banking System and "without in any way going outside what it may be judicious to say at this stage, it can at least be said that some progress towards this objective has been accomplished and the establishment of this system is not unfavourably viewed in banking circles."[2]

Sir Ernest Harvey's address on "Central Banking" to the Victorian Branch of the Economics Society of Australia and New Zealand, makes his attitude clear. He enunciated certain principles of central banking, "principles which I have reason to know . . . are regarded as fundamental in

[1] *Australasian Banking Record*, 21/10/1926.
[2] 1928 (the first) Report of the Directors of the Commonwealth Bank.

any sound system of central banking." An ideal central bank, according to Sir Ernest Harvey, ought to have the following principles enshrined in its constitution :

(1) Exclusive right of note issue.
(2) Freedom from Government control and political influence.
(3) Entire banking business of its own government.
(4) Right to act as banker to the trading banks ; settle clearing differences etc., but
(5) " Should not ordinarily compete with the trading banks for general banking business."
(6) Duty of ensuring to the public adequate banking facilities on reasonable terms.
(7) Should not allow interest on deposits.
(8) Should publish regular and clear statements of position, and should also publish a rate of discount.
(9) Duty of keeping none but very liquid assets, i.e. no loans on mortgages of land and no unsecured loans.
(10) Should not draw or accept bills payable otherwise than on demand.
(11) Should not undertake exchange business for profit.
(12) Should not trade or invest in trading concerns.
(13) Should not maintain foreign branches.

These principles are obviously not an exhaustive list, nor do they represent finality in Central Bank constitutions, but they were particularly useful in Australia at the time, to combat the idea that an effective Central Bank could be operated on a competitive basis. Sir Ernest himself stressed this point. " In the attitude of some people to the Commonwealth Bank I see signs that it is looked upon simply as a means of making money and to provide for certain classes of business which are adequately provided for already. I do not believe that this is the path of wisdom."[1] The identification of " some people " with the Australian Labour Party could not have been proved more conclusively than by a speech of the leader of the Party almost contemporaneously,[2] commenting on Sir Ernest's visit.

" It is difficult to understand why this gentleman was invited. . . . I suspect there is a movement afoot to make the Common-

[1] Address to the " Millions Club " reported on the *Sydney Morning Herald*, 17/3/1927.
[2] Mr. Mathew Charlton, *H.R. Debates*, 18/3/1927.

wealth Bank a bank of reserve only and to withdraw the competitive element. . . . If the bank is to function properly, its ramifications must embrace the whole of the Commonwealth and it must accept business wherever it is offering."

The present position, then, is uncertain. The Commonwealth Bank has many of the attributes of a central bank, but if its commercial functions do not divide the direction against itself it may prove difficult to convince the commercial banks of this, especially those of them who suffer much from "state-aided competition."[1]

The Bank has now control of the note issue because the issues of the commercial banks have been almost taxed out of existence.[2] It has the account of the Commonwealth and of all the States except Victoria and New South Wales. It stands aloof from the Bank Associations of Australia though it does not deviate from the rates agreed by the Associated Banks without good reason. In co-operation with the commercial banks it has done much good work, particularly in the financing of the pooling arrangements made for Australian primary products during the war and in facilitating exchange operations in the post-war years. In its work as a Central Bank, however, the Bank is severely hampered. Firstly, there is no bill market of any consequence in Australia, and thus the provisions in the 1924 Act with regard to rediscounting at a published rate have never been effective. It is suggested that heavy stamp duties discourage the extended use of Bills of Exchange, and a comparison between these charges and the equivalent English scale certainly supports this. Internally, however, the ordinary form of accommodation is by overdraft, and the Commonwealth Bank seems to have no greater success in abating this nuisance than the Reserve Bank of South Africa. The only form of

[1] The Commonwealth Bank (excluding the Savings Bank Department) with seventy-seven branches, attracts as many deposits as the Bank of Australasia, with 221 branches and twice its capital, and about half as many as the Bank of New South Wales with 431 branches and nearly three times its capital. The Commonwealth Bank has *some* of the Government accounts of course.

[2] The figures for the March quarter of 1928 for outstanding notes are:

| | £ |
|---|---|
| Australian notes . . . . . . . | 45,368,226½ |
| Commercial bank notes circulating in Australia . | 200,440 |

control of credit is the " rationing " procedure—a much more difficult and delicate operation than discount rate manipulation. Further, although the commercial banks effect clearing settlements through the Commonwealth Bank, it is not a Reserve Bank, since the gold reserves of the commercial banks are not kept with it ; together they hold nearly as much gold as the Commonwealth Bank itself. The obvious reason for this is that the commercial banks fear the Commonwealth Bank as a possible competitor, and this hesitant atmosphere is not improved by the political connections of the Bank. Something has already been said of the way in which the Bank has to run the gauntlet of Parliamentary debate, but the position has been made much more difficult recently by the appointment of the Board of Directors in 1924. Numerous assertions about directorships being made sinecures for Government supporters and the Board as a whole cementing the " Money Trust " in Australia have been made.[1] There are no " shareholders' " directors.

The Central Bank problem is therefore full of difficulty for Australia. The Commonwealth Bank does not control reserves, it cannot manipulate money rates and thus control credit. The Anglo-Australian banks and the local Australian institutions are far too interested in the London money market to make much use of a local Central Bank on the orthodox model, even if one were provided, and they are hardly likely to look for general leadership to a competing institution.

In a sense, the difficulties which have arisen in the movement towards central banking in India are quite comparable to the problems which are now being found so troublesome in Australia. But in addition, in the course of the move-

[1] Slights are even cast upon the conduct of individual directors. The Chairman in 1925 was accused of obtaining a large overdraft at a specially favourable rate for a company in which he was interested and of making abnormal profits in exchange as a result. The whole transaction was explained away in Parliament.

ment, considerable opposition has been aroused on the part of the *Anglo-Indian* banks to central banking and the discussion has often thrown a particularly useful light on the anomalies and difficulties of their position, operating as they do (like all the Empire banks) partly in one monetary centre and partly in another. These difficulties are worthy of some notice because it is clear they will apply with modifications, at least to Australia and South Africa, where an attempted central bank organization, together with important *overseas* banks, constitutes an essential part of the monetary structure.

The Central Bank movement, according to some Indian writers (Rau and Findlay Shirras notably) begins with the "Bank of India" project in 1836 and includes the State Bank proposals of Finance Minister Wilson (1859) which were upheld by his successor Samuel Laing. The first really constructive proposal, however, was that put forward in 1867 by Mr. Dickson, Secretary of the Bank of Bengal, who suggested a fusion of the three Presidency Banks under one charter with a paid-up capital of Rs.5 crores.

"I submit that the proposed United Bank would be equal, at all times and under all circumstances, not only to meet the legitimate requirements of commerce, but by unity of action and under the eye of the Supreme Government, to control those recurring monetary crises, which although hitherto more felt in the Bombay Presidency, yet very closely and intimately affect the interest and position of all." [1]

The Viceroy of the day condemned the proposals on the grounds that the influence of such an institution might overshadow that of Government itself; that it would be difficult to manage, and that Madras and Bombay would prefer separate institutions to look after their interests.

By the Act of 1876 when the Government retired from its position as shareholder in the Presidency Banks, it seemed as though the banks would now become ordinary commercial institutions and that, bereft of their Government connections, they would fail to attain anything like the position of the Bank of England, at any rate along the same historical road. This belief received some confirmation from the

[1] *Chamberlain Commission Report*, Appendix XIV, *Dickson's Proposals*.

institution of Reserve Treasuries to take charge of public money formerly entrusted to the banks. But the continuity of Government connection was not really broken. When the Reserve Treasuries were established in 1876 and 1879, the Presidency Banks alone were able to obtain advances from them, and even after 1893 when emergency loans only were made in this way, the money was always advanced to the Presidency Banks for distribution by them. (This practice, it is interesting to note, gave rise to the famous argument that the Presidency Banks lent Government money to the Exchange Banks and enabled them thus to escape the Secretary of State's Council Bill rate. In 1893 the Government of India wrote to the Bank of Bengal refusing at that time to lend money to it because "the Government of India are informed that the Bank of Bombay was able to and did advance in the last week of April nearly 40 lakhs to certain Exchange Banks on 60 days Bills although that demand could have been met by the purchase of Council Bills or Telegraphic Transfers by the Exchange Banks concerned.")[1] The Act of 1876, however, made no provision for amalgamation of the banks into one large and dominating concern, and they were still practically confined to the geographical limits of the Presidencies.

The Herschell Committee of 1893 which recommended the closing of the Indian Mints to the free coinage of silver[2] had nothing to say about a central bank, but the subject cropped up quite prominently in the evidence before the Fowler Committee.[3] This body, which recommended a gold standard and a gold currency for India, took evidence from Mr. Alfred de Rothschild, and amongst this appears his scheme for a Central Bank for India.

"I cannot help thinking," said this witness, "that an efficient plan might be devised for introducing into India the gold which

[1] Quoted in Brunyate's *Account of the Presidency Banks*, p. 102.
[2] A good instance of misguided opposition on the part of the Exchange Banks. See evidence of Robert Campbell, manager of the National Bank of India, and Thomas Jackson, London manager of the Hongkong and Shanghai Banking Corporation, the only two Exchange Bankers who gave evidence.
[3] On which Mr. Robert Campbell sat.

is essential in view to establishing and effectively maintaining a gold standard. . . . But the detailed working of such a plan, simple as it is in its essence, requires a technical skill and adaptability which can hardly be looked for in a Government Department. It seems to me that if a bank were created in India, with privileges similar to those held by the Bank of England, that desideratum would in a very few years be accomplished." [1]

The Presidency Banks were to be fused and the new Board should be composed of representatives, as influential as possible, of the chief merchants and bankers. The Bank should not conduct any exchange operations but should confine itself, like the existing Presidency Banks, exclusively to internal operations.

"I am also fully aware that it has been suggested that a proposal for the creation of a great bank in India with certain privileges and which would presumably do a very large and profitable business might arouse opposition on the part of the great financial institutions both in India and in Europe. I doubt this, but in any case I feel certain that that opposition would be of very short duration and that these institutions would be the first to lend their valuable aid and co-operation, which would be easily secured if their directors or managers figured on the Board of the new bank."

It is doubtful whether the opposition to which Mr. Rothschild refers could be dealt with in this way, since the banks would be competing institutions and an interchange of directors would be out of the question.[2]

To this Central Bank suggestion, Sir Everard Hambro, a member of the Committee, gave support: [3]

"In my opinion a strong bank properly constituted, would be a powerful assistant in giving effect to any regulation having the convertibility of the rupee in view. . . . I venture to call attention to this point because I believe that the success of the recommendations of the Committee, if adopted, will very much

[1] *India Currency Committee* of 1898, Minutes of Evidence, *Q.* 11853.

[2] Anomalies like this presumably account for the whole suggestion being misconstrued in some quarters, e.g. "We approve of the suggestion" (of Mr. Rothschild) "to transfer the issue of notes from the Currency Office to banks, but we do not think it necessary or desirable to confine the issue to one bank" ( *Bankers' Magazine*, September 1899. Decentralization of the note issue in this way would clearly be fatal to the scheme. (The article was written from Calcutta, perhaps by an Exchange Banker.)

[3] *Annexe* to main Report.

depend on the banking wants of the country being assisted in times of pressure and curtailed in times of slackness, and this in my opinion could only be done by the establishment of some institution having ample facilities at its disposal and framed on somewhat similar lines to those of either the Bank of England or the Bank of France."

A good deal was made of this in the Press, but the Exchange Banks opposed it, particularly as the Finance Member seemed inclined to allow the proposed Bank to borrow in London; their opposition stirred up a controversy from which emerged some interesting facts.

The Banks sent a Memorial [1] to the Viceroy praying

"that Your Excellency will hesitate to allow the competition of the" [proposed] "State Bank in the exchange market after 40 years interval during which your Memorialists have utilized their capital in India and have built up their business which after all (despite inevitable risks incurred) is not one in which large profits have or can be made and that if your Excellency permits the concession asked for by the Presidency Banks, namely access to the London Market, your Excellency will not grant it except on such terms as will preclude what is practically State competition with existing enterprises." [2]

The Memorial was signed by the National Bank of India, the Delhi and London Bank, the Mercantile Bank of India, the Chartered Bank of India, the Agra Bank, the Hongkong Bank, the Comptoir National and the Deutsche Asiatische Bank.

The Government of India in sending this forward to the Secretary of State [3] made some indignant comments:

"It is stated by the Exchange Banks that for the last forty years they have 'practically financed the whole export and import trade of the country' while the Presidency Banks have devoted themselves entirely to financing the internal commerce. We cannot for a moment admit the correctness of this assertion. Though the Presidency Banks have hitherto been prohibited from engaging in exchange operations their resources (and through

[1] Dated 3/2/1900. Quoted in *Chamberlain Commission Interim Report*, Appendix XV, p. 409 (Art. 19).

[2] See also *Money Market Review* of 31/12/1899 in support of this attitude.

[3] Letter, 3/12/1900. Quoted in *Chamberlain Commission Interim Report*, Appendix XV, p. 407.

them the resources of the Government also) have been freely placed at the disposal of all sections of the commercial community including the Exchange Banks themselves who now imply that they have financed the whole foreign trade with their own capital exclusively. . . . In December last the Associated Exchange Banks deputed two representatives . . . to meet our honourable colleague in charge of the Finance Department and to urge upon the Government that any loans made by the Government should be made equally to the Exchange and to the Presidency Banks. When it was intimated that the Government would be unlikely to depart from their past practice of giving all loans through the Presidency Banks the deputation asked that the Presidency Banks should not be permitted to pass on the Government money except to the Exchange Banks or at any rate that the Exchange Banks should have the first call on it to the exclusion of local banks and merchants European and native. A few weeks later the Government were suddenly and urgently pressed by the managers of two of the Exchange Banks to advance Rs. 30 lakhs to the Bank of Bombay. It was represented that unless the money was forthcoming there was danger of a serious commercial crisis and of an important failure. The Exchange Banks it was explained would not provide money for their customers, though money could be obtained in a few hours under Act II of 1898 because they objected to buying telegraphic transfers at the rate at which your Lordship was then selling. Sooner than have recourse to this means of obtaining funds they frankly preferred to let the crisis come. Happily the crisis was averted mainly, we believe, by the action of one of the Presidency Banks."

No explanation of this uninspiring conduct was offered by the Exchange Bank representatives at the subsequent Currency Commission, although they were pressed to give one; but the facts certainly support the demand of a potential Central Bank for access to the London Money Market.

Too literal an interpretation cannot be placed upon this Memorial. With regard to the implication that the whole of the Exchange Banks' capital was employed in financing Indian external trade, it must not be inferred that even the greater part of their capital was available in Indian currency for this purpose. Almost all the successful Exchange Banks, in fact, converted their rupee capital into sterling and brought it home before the serious fall in Indian currency occurred, and the bank reports of the decade before the date of this Memorial are full of reassuring statements of the great

losses to the English shareholders which had been avoided by this timely conversion.[1]

The wildly fluctuating bank rates and sudden shortages of money in India may possibly be partly explained in terms of this practice. At any rate there is not much to say for the claim of the Exchange Banks' representative that "I do not think a State Bank would look after the situation any better than we can," but perhaps something to say for the establishment of a Central Bank with power to borrow in London. There were severe restrictions coupled with the privilege of holding the Government balances (such as the ban on exchange operations and the obligation to publish weekly statements) which suggest that the severity of the competition to be expected from the Presidency Banks was possibly over-rated. Moreover the relative financial strength of the two classes of banks was rapidly changing towards the end of the century.

RELATIVE POSITIONS OF THE PRESIDENCY AND EXCHANGE BANKS, 1870–1900

(Figures from *Statistical Tables relating to Banks in India*, 1926, Indian Blue Book, No. 2095 of 1928.)

*Presidency Banks.*

| Date. | Capital Reserve and Rest (Rs. 1,000). | Public Deposits (Rs. 1,000). | Private Deposits (Rs. 1,000). | Cash (Rs. 1,000). |
|---|---|---|---|---|
| 1870 . . . . | 3,61,87 | 5,43,05 | 6,39,61 | 9,96,87 |
| 1880 . . . . | 4,05,27 | 2,91,15 | 8,49,28 | 7,41,45 |
| 1890 . . . . | 4,47,54 | 3,59,25 | 14,76,35 | 12,96,75 |
| 1900 . . . . | 5,59,61 | 2,80,53 | 12,88,27 | 5,04,49 |

*Exchange Banks.*

| Date. | Number. | Capital Reserve and Rest (£1,000). | Deposits out of India (£1,000). | Deposits in India (Rs. 1,000). | Cash out of India (£1,000). | Cash in India (Rs. 1,000). |
|---|---|---|---|---|---|---|
| 1870 . . | 3 | 2,184 | 2,688 | 52,31 | 2,611 | 61,13 |
| 1880 . . | 4 | 3 073 | 7,305 | 3,39,88 | 2,046 | 1,80,09 |
| 1890 . . | 5 | 8,083 | 30,734 | 7,53,60 | 5,810 | 3,50,43 |
| 1900 . . | 8 | 15,774 | 54,263 | 10,50,35 | 11,945 | 2,39,58 |

[1] Cf. especially the Reports of the National Bank of India of 1894 and the Agra Bank of 1897; also evidence of Sir Alfred Dent before 1898 Committee (*Q.* 1959).

However, the Central Bank project was eventually rejected by the Finance Minister [1] because

"there is under the present conditions no real necessity for the foundation of such a bank in the interests of trade, and that although in my opinion the existence of a strong bank with abundant resources would be useful in connection with possible exchange difficulties and I may add from other points of view be convenient to Government, the direct cost of its establishment would be greater than I venture to recommend for acceptance."

The Secretary of State requested that "the object may be kept in view and that the scheme may be revived whenever there is a possibility of its being successfully carried out."

The clash of interests revealed thus publicly by the quarrel over the Memorial of 1900 suggests that the Exchange Banks' hostility towards a possible rival might have been a weighty reason for the repeated rejection of applications by the Presidency Banks for powers to raise money outside India in order to relieve the Indian money markets. But there were other reasons for the slow progress of these banks towards wider functions and a more exalted status.

In regard to dealing in foreign exchange, which is of course implied in external borrowing, the proprietors of the Bank of Bengal had themselves unfortunately refused this power in the early years, and had specially excised it from the Charter of 1839 because they were unwilling to incur the risk. When they recovered from this attitude, however, the Government repeatedly turned down requests (1862, 1866, 1875 and 1878) that they should be allowed the privilege, on much the same ground. Brunyate quotes the 1862 letters of the Secretary of State to the Government of India as stating that "any Bank to which the balance and treasury business of the Government are to be entrusted must be restricted to legitimate banking operations such as those transacted by the Bank of England," but with regard to foreign exchange, "the Bank of England does not transact

[1] Minute of Sir Edward Law, 31/1/1901, *Chamberlain Commission Report*, Appendix XV, p. 428. Law succeeded Sir Clinton Dawkins as a man of perhaps less capacity in State finance. Had Sir Clinton Dawkins not accepted a partnership in Morgans after the presentation of his first Budget, the scheme might have gone through.

business of that description which is in fact not banking but speculative commercial business." It was nothing but a repetition of this attitude which led in part to the disallowance of the 1900 proposals. The Secretary of State could not permit the Presidency Banks to hold large Government balances if they dealt in foreign exchanges, "which is in reality speculative commercial business, not legitimate banking," and could not permit the opening of a London agency because this would encourage the banks to lock up their capital in loans in London and make it unavailable in case of emergency in India.[1]

In 1904 the question was again raised, when the Exchange Banks once more raised the most emphatic opposition to the suggestion that the Presidency Banks should have access to the London market; either for borrowing when the Indian Bank rates were over 6 per cent., or even for meeting drafts on London for the personal requirements of customers up to a limit of £200 in each case. This opposition shows no particular animus on the part of the Exchange Banks; it occurred in the case of the South African Reserve Bank and is simply the expression of an economic motive. The Presidency Banks' demands, assuming they were to fulfil the functions of central banks, were, however, perfectly legitimate. The old arrangement under which they borrowed from Government in periods of stress, was no longer so freely open to them because Government Treasury balances might only be lent to them (after 1899) at *market rate*, thus leaving them no inducement to apply for assistance. Neither could they borrow in London and so perform their proper function of relieving the hard-pressed Indian money markets. The Exchange Banks themselves had this course open to them, but their exclusive regard for their own interests might prevent them from borrowing in London, if transfers were too dear and Indian rates not high enough. Under proper regulation, it is doubtful whether the competition offered by the Presidency Banks in London would have been more than intermittent and certainly no stronger than would arise if the Exchange Banks themselves had undertaken the duty.

[1] *Chamberlain Commission Interim Report*, Appendix XV, p. 517.

However, all the demands of the Presidency Banks were disallowed by the Secretary of State,—even the request that they should issue small foreign drafts to their own customers.

The reasons advanced for disallowance this time certainly showed some improvement on 1900, as the Secretary of State now thought the competition of the Presidency Banks would be unfair to the Exchange Banks—

> "I may add that the injury caused to the Exchange Banks by the competition of State-aided rivals would, in my opinion, be detrimental to other interests besides those of the institutions immediately affected. . . . Owing to their high standing it is advantageous to the Secretary of State (and it may reasonably be presumed that it is advantageous to merchants) to be able to carry on remittance transactions through their agency." [1]

The united opposition of the Associated Banks was thus now becoming more formidable, since the prohibition of the Indian quasi-central banks from dealing in foreign exchange could now, by no stretch of imagination, be supported on analogy with the Bank of England or any other European Central Bank.

The Chamberlain Commission of 1913 had two Central Bank proposals before it, but not considering itself competent to come to a decision upon them,[2] recommended the appointment of a small expert committee to examine the question. One scheme brought before the Commission was that of Mr. Lionel Abrahams, Assistant Under-Secretary of State for India. It discussed the advantages and disadvantages of a State bank on abstract grounds and is not so detailed on the points more particularly relevant to this enquiry as the other scheme, proposed by Mr. Keynes. One important point of difference between the two proposals was that the first considered the advantage of borrowing in

[1] Dispatch of Secretary of State to Government of India, 16/3/1906. Quoted in *Chamberlain Commission Interim Report*, Appendix XV, p. 510.

[2] Although there was much agitation in favour of a "State Bank" in some form or other. See particularly Sir Edward Holden's speech at Annual General Meeting of the London City and Midland Bank, 24/1/1913. Sir Edward wanted a more stable money market in India and lower rates, so that a high bank rate in England would draw funds from India. Also *The Times* article on *A State Bank for India*, 14/3/1913, and similar article in the *Times of India* of 11/4/1913.

London doubtful, while the second favoured rediscounting by a London office of the proposed Bank at the Bank of England.

Mr. Keynes' Memorandum of "Proposals for the Establishment of a State Bank in India" recommended amalgamation of the Presidency Banks into one "Imperial Bank of India."

"The supreme direction of the Imperial Bank of India shall be vested in a Central Board of 3 members consisting of the Governor of the Bank (who shall be chairman), the Deputy-Governor and a representative of the Government, together with three or more Assessors" (managers of the three Presidency Head-offices). The Governor was to be appointed on the recommendation of the Secretary of State, but the day-to-day work of the Bank was, however, to be left to the "Presidency Boards" with entire discretion to discount Indian (rupee) trade bills; to discount sterling trade bills bearing the endorsement of another bank (that is, no direct purchase by the Central Bank of "foreign exchange" was to be permitted); to make interest-bearing loans; to provide trade remittance for customers to all parts of India and private remittance to London subject to certain conditions; to accept interest- and non-interest-bearing deposits; and to appoint staff and control branches.

The suggestions for the management of foreign exchange business are very interesting. "No important object," wrote Mr. Keynes, "would be served by allowing the Bank to compete with the Exchange Banks in attracting deposits in London." This is indisputable in regard to money intended for use overseas; if the deposits were for short terms this would be too risky, as they might be wanted quickly. If for long terms, the Bank could not pay the interest needful to attract these, while at the same time fulfilling properly its heavy responsibilities. "Nor is there any clear advantage (sufficient to counterbalance the opposition which would be aroused) in allowing it to enter into the regular business of trade remittance by buying trade bills in both directions." Nevertheless, it might quote rates to applicants in London for rupee drafts.

If the Bank were given this latter function, the Exchange Banks could now (to get rupees) either rediscount sterling bills in India or buy rupees in London, and according as the Government wanted sterling in London *now* or sterling bills in India for realization in the future, the Bank could offer the appropriate inducement to the Exchange Banks by manipulating its rates. This would certainly enable the Secretary of State to build up his sterling balances directly in the finance of Indian trade and utilize them more profitably than in lending the money to middle-men for dispersion in the London Money Market ; and rediscount at the Bank of England would always provide funds in emergency.

But Mr. Keynes foresaw opposition from the Exchange Banks to this promising plan. " The Exchange Banks seem likely to oppose any substantial change in the present position. . . . They will be but repeating the mistake which they made in 1892 in opposing the closure of the Mints." Opposition did, in fact, arise during the sitting of the Commission, and the representatives of the Exchange Banks fought strenuously against the idea of a State Bank, or even an amalgamation of the Presidency Banks. They also would not hear of any proposal to give the Imperial Bank any right whatever to deal in exchange.[1] " While we do not deprecate ordinary competition by competitors on the same level as ourselves,[2] we strongly object to State-aided competition. . . . To absorb these " (the Presidency Banks)

" into a central institution would, in our view, militate against efficiency. . . . We consider that the existing Currency Department . . . is much better fitted to manage and develop the paper currency than a State Bank would be. . . . The mere amalgamation of the Presidency Banks with a central authority would present insuperable difficulties. . . . When it is also suggested that a State Bank should, on top of all these responsibilities, open an office in London and transact exchange business

[1] *Indian Currency Commission* of 1913, *Q.* 2621. Evidence of Messrs. Toomey and Fraser, managers of the National Bank of India and of the Chartered Bank of India respectively.

[2] But the banks were not subject to " ordinary " competition. Keynes in 1913 wrote : " It is probable, however, that it would be exceedingly difficult to start a new Exchange Bank at the present time, except under the ægis of some important financial house already established in a strong position in India," *Indian Currency and Finance*, p. 208.

with India, the proposal is vaster than the ordinary banking mind can conceive as being in any way feasible."

The choice of the adjective seems, in view of subsequent events, unfortunate. The Exchange Banks were equally unconvinced by the stock arguments for a central bank. "Suppose there were to be a banking crisis in India, everybody would go to the Presidency Banks for money?—The Exchange Banks would probably call upon London, I should think, and take Council Telegraphic Transfers." [1] This is a remedy of universal applicability throughout the British Empire. In times of financial stress the Empire Banks could call on London and disregard the local central bank.

"Would you feel in a stronger position if the whole business were more centralized—if the Secretary of State's balances and the bankers' balances instead of being kept in various places and by various authorities were all kept in a State bank which would be under a certain responsibility to look after a situation of this kind?—I do not think a State Bank would look after the situation any better than we can under existing circumstances. . . . I should think the Presidency Banks worked in conjunction with the Government would be quite as powerful and as good an influence as any State Bank."

The opposition of the Exchange Banks to the new proposals seems a little shortsighted, and even if it did not influence the Government decision in this matter to any appreciable extent, it certainly had the effect of bringing down upon these banks a storm of criticism in political quarters, with significant echoes in regions where greater impartiality might be expected. In the subsequent debates on the Imperial Bank Bill of 1920,[2] for instance, one speaker alleged that

"the Government felt themselves absolutely powerless against the vast vested interests of the Exchange Banks. The Exchange Banks have their branches all over the East, the best experts are in their hands and any scheme will be wrecked at any rate temporarily, which assails their power notwithstanding the best will of the Government of India."

[1] *Indian Currency Commission* of 1913, *Q.* 2883 by Mr. Keynes.
[2] *Legislative Assembly Debate*, 11/3/1920, on motion to refer Bill to Select Committee. Hon'ble Rao Bahadur B. N. Sarma.

The recommendations of the Chamberlain Commission were not carried into effect owing to the war, but in 1920 shareholders of the Presidency Banks received a circular stating that there was every probability that powerful banking interests in England, represented by the large London joint-stock banks, might at an early date obtain control of certain Indian banking interests, more particularly those of certain Indian Exchange Banks, and to combat this and to retain their prominent position, it was absolutely necessary for the three Presidency Banks to consolidate by amalgamation. The contingency feared [1] was obviously the projected Lloyds and National Bank of India amalgamation.[2] The bank failures in India of 1913-15 and co-operation in war time had done a good deal to pave the way, but it is rather significant that the initiative came entirely from the banks and not the Government.

On 23/9/1919 the Hon'ble Rao Bahadur B. N. Sarma moved in the Legislative Assembly that "This Council recommends to the Governor-General in Council that a State Bank on the lines suggested by Professor Keynes in his annexure to the Report on the Indian Currency, be established in India at a very early date." In the debate which followed on this, the Finance Minister (Hon'ble H. F. Howard) said:

"Practically as soon as the Armistice was declared, the three Presidency Banks came together and when Sir James Meston went to Bombay, he was confidentially approached by them as to the way in which the Government would look on the question. Well, we were only too glad to receive any advance of this kind on the Banks' part. Some informal discussions with the Banks followed and they eventually put before us a scheme which we have passed on with our observations to the Secretary of State."

[1] But cf. the following common-sense point of view: "What is the objection to London banks acquiring interests in India? . . . As far as I can see if more capital comes in and there is, so to speak, a competition amongst capitalists, we who borrow will be benefited thereby and will be able to get it at smaller rates of interest. Obviously these three bank people are doing good trade I believe, and they do not want London bankers to come here and take a share of it." Hon'ble Mr. G. S. Khaparde in Legislative Assembly, 11/3/1920.

[2] See "The Imperial Bank Scheme," *Indian Review*, March 1921.

The Bill made its appearance on the 1st March, 1920, but from the point of view of supporters of Keynes' proposals, was disappointing.[1] The hope of the Government was "that the new Bank will grow up to be a really national institution"—an ominous adjective to use in view of subsequent developments. The old question of Exchange Banks' monopoly again came into prominence:

> "It has been urged that we should not seek as we do seek, to exclude the Imperial Bank from taking part in ordinary exchange operations. . . . The Banks themselves, who are mainly concerned, have acquiesced in this proposal; they have done so for the reason that they now hold in many cases the balances of the Exchange Banks and they could not expect those banks to leave their balances with them if they were rivals in the matter of exchange operations." [2]

Further, the new bank was not to have control of the note issue; it was thus hardly a central bank so much as an amalgamation of the Presidency Banks as going commercial concerns. Some extra privileges were given to the amalgamated institution but not sufficient to affect the business traditions of the Banks. The new privileges were, moreover, in many cases severely circumscribed, presumably in deference to the Exchange Banks. By Section 9 of the Act, for instance, "the Bank shall not at its London office open cash credits or keep cash accounts for or receive deposits from any person who is not or has not been within the three last years preceding, a customer of the Bank or of any of the Presidency Banks." This clause was even more restricted in the original Bill.[3] Section 10, again, empowers

[1] "The Imperial Bank of India," by H. F. Howard (*Economic Journal*, June 1921), gives the Finance Minister's own account of his plan.

[2] Hence the Act this time had the blessing of the Exchange Banks. "It seems to me that the movement for amalgamation is fully justified and is unlikely to be prejudicial to the interests of the Exchange Banks of India, always provided that the present intention of not competing with the Exchange Banks in their ordinary business of exchange banking is fully and honestly adhered to." Speech of the Chairman of the Chartered Bank of India (now the *doyen* of Eastern banks), 9/4/1920.

[3] The Select Committee appointed to consider the Bill, in fact, reported (*Gazette of India*, 4/9/1920) that "we consider that the provision in Clause 9 of the Bill restricting the dealings of the London office of the Bank to persons who are customers of the Bank is too narrow and we have extended it to cover the case of persons who have been customers . . . within the three last years preceding."

the Bank to act as banker for the Government, but provided the agreement makes it clear that " the Bank shall establish and maintain not less than a hundred new branches of which at least one-fourth shall be established at such places as the Governor-General in Council may direct." All the new branches were to be opened within five years. Before the amalgamation, there was a total number of sixty-four branches; the hundredth new branch was opened on 11th January, 1926, sixteen days before the five-year period expired. Although this provision is undoubtedly of great public benefit, and has already had the effect of lowering internal exchange rates throughout India, yet it must prove a heavy burden to the Bank to have to maintain such an increased number of branches—many of which are believed to be unremunerative at present, with the prospect of remaining so for some years—at such short notice.

The Boards of the Presidency Banks became the local Boards of the Imperial Bank. The Central Board is constituted by the Presidents, Vice-Presidents and Secretaries of the Local Boards, the Controller of the Currency, a maximum of two Managing Governors appointed by the Governor-General and a maximum of four unofficial nominees of the Governor-General. The Central Board, whose function it is to make by-laws regulating the day-to-day business of the Local Boards, sits alternately at Calcutta and Bombay. In the past, provincial jealousies had proved an obstacle to amalgamation, and even at present these jealousies are manifest in relation to the location of the Central Board.

By Schedule I, Part I, of the Act, the Bank was given restricted general powers in conformity with its new status:

Section (*d*), " the drawing, accepting, discounting, buying and selling of bills of exchange and other negotiable securities payable in India or in Ceylon; and . . . the discounting, buying and selling of bills of exchange payable outside India for and from or to such banks as the Governor-General in Council may approve."

Section (*m*), " the drawing of bills of exchange and the granting

of letters of credit payable out of India . . . for private constituents for bona fide personal needs."

Section (*n*), " the buying for the purpose of meeting such bills or letters of credit, of bills of exchange payable out of India. . . ."

Section (*p*), " the borrowing of money in England for the purpose of Bank's business upon the security of assets of the Bank but not otherwise."

Part II prohibits the Bank, *inter alia*, from making loans for a longer period than six months, and two firms " unconnected with each other in general partnership " must back each bill presented for discount or loan. Finally, no director or manager of any joint-stock bank having branches in India may become a Governor or member of a Local Board unless as one of the four unofficial nominees of the Governor-General.

The problem in India has resemblances in principle to that in Australia.[1] Both the Commonwealth Bank and the Imperial Bank of India are commercial banks with extended branch systems and business connections which have taken years to build up and which can only be maintained by competition, in which tradition both of the banks have been well schooled. Yet in both cases it may be doubted whether a branch system and business connections are necessary to a Central Bank. In view of the great distance involved it seems unreasonable to leave reserves against deposits say at Calcutta, when the deposit liability is at Rangoon, but *regional* reserve banks are here indicated, not an extended network of commercial branches. If financially subordinate countries like these really want a Central Bank of the orthodox type, the solution seems to lie either in an entire withdrawal of commercial functions from the existing banks—which certainly in the case of India with her crying need for more banking facilities, would be criminally wasteful—or in the creation of a separate institution altogether to relieve the Commonwealth Bank

[1] This makes it all the more curious that in 1927 the appointment of Acting-Managing-Governor of the Imperial Bank was made from the staff of the Commonwealth Bank of Australia because " it was considered advisable for the Imperial Bank to recruit an official having knowledge of the requirements of central reserve banking " ! *Bankers' Magazine*, September 1927.

and the Imperial Bank from their responsibilities in this direction. Australia may perhaps evolve a composite type of institution, though the technique of the operations of such a bank will be sure to raise some extremely difficult problems, in which European experience with its relatively highly organized money markets and credit systems, will present no reliable guide. The Indian decision remains in suspension at the moment, though the Hilton Young Commission Report undoubtedly represents the ideal at which the Government aims, and it is significant that this rejects altogether the idea of the Imperial Bank as a Central Bank.

The Report of 1926, criticizing the system of control of currency by the Government and of credit by the Imperial Bank [1] recommended divesting the Imperial Bank of its central banking functions and setting up a new Central Bank side by side with it, to control both currency and credit. Again the Exchange Banks opposed this new development,[2] though it is possible that this time their attitude was founded on the quite justifiable belief that an Imperial Bank divested altogether of its quasi-central banking responsibilities would be a far more redoubtable competitor. In this connection it had also been urged that keener competition from the Imperial Bank would drive the many useful, but small native institutions out of business. It is certain that had the original scheme of Sir Basil Blackett for the settlement of the relations between the " Reserve Bank " and the Imperial Bank been accepted, the Imperial Bank would have been left in a very strong

[1] Cmd. 2687 of 1926.

[2] This contingency had not at first been contemplated by the banks. Cf. Mr. Nicol (General Manager of the National Bank of India) in Vol. V of Minutes of Evidence, *Q.* 14158 : " I should like to add that anything I have said in connection with the central bank is my own personal view because it was not mentioned by the Association " in their long statement submitted to the Commission. Again, " to many the proposal to institute a Central Bank in India came as a surprise," R. L. James' (Director of the National Bank of India) article on " The Proposed Reserve Bank of India," *Banker* of October 1926. It could not have been a surprise to those who had followed the Reports of previous Commissions. The letter from the Associated Exchange Banks printed in Appendix 84 of the *Royal Commission Report*, further advises *against* the control of note issues by the Imperial Bank, though the whole point in the Central Bank agitation had been that a system of Government control of currency and Imperial Bank control of credit, was futile.

position indeed.[1] Restrictions like those on the business of the London office and on exchange operations, would have been abolished; the Imperial Bank would have been given the option of subscribing for 30 per cent. of the capital of the Reserve Bank, and would have monopolized its agency business. For maintaining its then existing branch system, the Imperial Bank would have had substantial free and cheap balances of Government money transferred from the Reserve Bank for a period of twenty-five years after the foundation of the new bank. For approved new branches, the Imperial Bank would have received further free balances for ten years, so that for a considerable time it would have been in an exceedingly strong position for competition, especially when its branch system began to be profitable at all points. An Imperial Bank with *heavier* public responsibilities, however, would be a far less effective competitor. In any case, the English banks seem doubtful whether a Central Bank would be of any use at all to them; the evidence taken before the 1926 Commission certainly suggests this important conclusion—*Q*. 14148 (Sir Henry Strakosch):

> "Let us suppose you were to do local business and you had no possibility of *recourse to the Bank of England*, would you regard your bank as being in as favourable a position without a central bank as with a central bank in India?—(Mr. Chas. Nicoll, General Manager, National Bank of India): You mean we might take refuge with the central bank in India *in the same way as we would do with the discount market in London*?—Exactly. —Well, I do not see the necessity for it."

It is a pity that Sir Henry Strakosch says nothing of this difficulty in his published arguments in favour of Empire Central Banks. Certainly, if the Empire commercial banks rediscount with the Bank of England in time of trouble, the local Reserve Bank can hardly hope to retain control of the market unless it can provide the same facilities, and this, in view of the present subordinate position of the money markets of the Empire to London, is out of the question.

The 1926 Central Bank scheme has had rather a chequered

[1] See *Circular* to shareholders, dated Bombay, 14th April, 1927.

history, of which the Hilton Young Report forms only the first chapter, giving an outline of the constitution of the proposed bank—a "shareholders'" bank and not a State institution. The Local Boards were to be retained and the Central Board was to consist of fourteen members, nine to be elected by the shareholders, and three to be non-official nominees of the Governor-General, together with a Managing-Governor and a Deputy-Managing-Governor appointed by the Governor-General in Council. In addition "the Government should be entitled to nominate an official member to the Board who should have the right and duty to attend and advise the Board but not to vote."

Sec. 95 provides that

> "to eliminate the danger of political pressure being exercised upon the Boards of the Reserve Bank, it is desirable to introduce a provision in its charter directing that no person shall be appointed President or Vice-President of a Local Board or shall be nominated a member of the Central Board, if he is a member of the Governor-General's Council, the Council of State, the Legislative Assembly or of any of the Provincial Governments or Legislative Councils."

Sec. 96 similarly excludes representatives of the commercial banks. This, of course, is in accordance with the best Central Bank practice, though perhaps insufficient regard was paid to the difficulty of finding able directors *not* connected with the Central or Local Governments, a difficulty of quite peculiar importance in India.

The business of the Bank was in general to be all that which theoretical discussion in the past few years has assigned to the ideal central bank—that is, the remittance operations of the Government in London and in India, the holding of the Government balances and the banking reserves, management of the note issue and rediscounting for the commercial banks. But, as in Australia, it seems likely that difficulties will arise in the application of European central banking technique to altogether new conditions in India, where the bill market in particular is in a very rudimentary state, one of the principal difficulties being that of language. Further, the Scotch system of "cash credits"

was unfortunately transplanted to India by the European banks, just as it was imported into the Colonies (where it rapidly degenerated into mere lending on land), and this means that if the Central Bank is to obtain control of the market at all, it will be reduced to rediscounting bank promissory notes.

The first Bill introduced by the Government (25th January, 1927) differed slightly from the recommendations of the Commission and settled some of the difficulties. The Bank, for instance, was to be allowed for five years to advance against the promissory notes (covering agricultural or trade transactions) of certain scheduled banks and the difficulty of finding personnel for the Local Boards was solved by temporarily abolishing these Boards. The twenty-six scheduled banks included ten British and nine foreign institutions and only six local banks. (It was, of course, immediately noticeable that the Government thought only six local Indian banks were worthy of inclusion, and it is not surprising to find that the subsequent Joint Committee of the two Houses of the Legislature added more local banks up to a total of sixty in all.) In the original scheme each of these banks had [1] to maintain with the Central Bank a reserve of 7½ per cent. of demand and 2½ per cent. of time liabilities. Monthly returns were to be made to the Governor-General of the end of month figures for Demand and Time Liabilities, Notes and Coin held, Advances and Discounts, and Balances with the Reserve Bank, and severe penalties were fixed for non-compliance with these regulations. The nine "shareholders" directors, elected to serve on the Central Board, were now to represent business interests in Calcutta, Bombay and Madras and were to be representatives of *Indian* companies. Unfortunately "the Finance Member did not press for the passing of this Bill at the same time" as the Ratio Bill which fixed the value of the Rupee at 1*s*. 6*d*., and this "gave time to his political enemies, especially in Bombay, to marshal their forces and to retaliate for the passing of the Ratio Bill." [2]

[1] Section 41 of the Bill, *Gazette Extraordinary of India*, 17/1/27.
[2] "A Central Bank for India," Shirras, *Economic Journal*, December 1928.

The Bill was described by Sir Basil Blackett, when he introduced it,[1] as " the most important measure of liberalism in finance that has been ever offered to India," and although on the whole the measure was received in this spirit, yet the mutterings of the storm of criticism which eventually overwhelmed it, could be heard quite early in its history. The question of representation on the Board of the new bank, proved to be the most controversial. One critic said:

> " There is no guarantee, Sir, that this new Reserve Bank will not be ruled, will not be dominated, by a particular group of financiers or by a particular community. Therefore I hope that when the proper time comes, the House will consider as to how best they can provide for proper representation of Indians and proper control of the Bank by Indians." [2]

The Bank must be self-governing in the sense that " it is not controlled by foreign capitalist interests, that it is essentially controlled by interests that are Indian and national." [3] Some of the speakers had little idea of the principles of European Central Banking on which the scheme was based:

> " Unless we provide for ample safeguards in the matter of giving control to the public and unless the Reserve Bank and the authorities appointed by the Government to control the currency are amenable to the discipline and to the orders and mandate of this House, it will be very dangerous to hand over the currency to a new institution of the kind proposed in the Bill." [4]

Although, judged by European standards, it seems plain that State control is just what is *not* desired, no amount of argument would convince the critics, and mutilation of the Bill at the hands of the Joint Committee of the Council of State and the Legislative Assembly, followed inevitably. The most important alteration suggested by the *Report*[5] of this Joint Committee was that a State Bank, capitalized by the Government, should replace the " shareholders " bank of the original scheme because a central bank " would

[1] *Legislative Assembly Debates*, Vol. I, 1927.
[2] Mr. G. D. Birla, *Debates*, Vol. I, p. 75.
[3] Mr. R. K. S. Chetty, *Debates*, p. 89.
[4] Mr. V. S. Pandya, *Debates*, p. 99.
[5] *Gazette of India* (Part V), 27/8/1927.

if directed by a body responsible only to a number of private shareholders, tend to be controlled by vested interests . . . its utility to the public might even be endangered by a conflict of interest within the management of the Bank between Indian and external capital," and "joint-stock principles are not suitable in the case of a Central Bank, the management of which should be carried on with an eye more to the public interest than to the accumulation of profits for shareholders." Moreover, another new principle was to be introduced. Out of the proposed fifteen Governors, three were to be *elected* by the *elected* members of the Central Legislature and three by those of the Provincial Legislatures, because "the said elected members represent together all the various interests of the people as a whole and that it is reasonable and just that on the Reserve Bank of the country there should be some Governors elected by such general electorates." Further, recognition of the principle of Indianization was implicit in the suggestion that either the Governor or the Deputy-Governor should be an Indian[1] (though this was carried by a majority of one only in Committee) and two Indian directors should be nominated by the Government. This, of course, was a flagrant violation of the principles laid down by the Hilton Young Commission, and there were thirteen minutes of dissent from the Committee's recommendations. Sir Basil Blackett (and six others) objected to making the Bank a tool in the hands of the politicians, and criticized just as strongly the policy of Indianization.

"The provision that either the Governor or the Deputy-Governor must always be an Indian appears to us to be objectionable, both as intruding racial and communal questions in a sphere where they ought not to belong and subordinating the essential requisite of maximum efficiency to other considerations. Similarly in the case of the directors nominated by the Government we object to the inclusion in the Bill of a provision that

[1] "My recollection is that the Amendment proposed in the Joint Committee was to the effect that of the Governor and Deputy-Governor, one *at least* shall be an Indian. The words *at least* do not appear in the clause as finally printed. In any case I press for the words *at least* being inserted to make the intention clear that both may be Indians, if possible." Dissenting Minute of V. R. Pantulu, *Joint Committee Report*.

they must be Indians though we should be ready to agree that the directors nominated by the Government should always be selected with a view to making the Board as widely representative as possible of the various localities, communities and interests of India as a whole." [1]

In the Legislative Assembly where the storm now arose, the efforts to reach a compromise resulted in such a wholesale abandonment of the recommendations of the Commission of 1926 that the Secretary of State "cabled from London and put his foot down firmly on the negotiations" [2] and the Government announced that they would not proceed with the Bill during that Session. Subsequently, after consultation with the Secretary of State the Finance Member framed yet a third Bill, which was, however, never discussed by the Legislative Assembly because the procedure in introducing it was held to be out of order as the second Bill had not yet been withdrawn. In the third Bill the Government stood by the conclusion that share capital affords the only satisfactory basis for the constitution of a Reserve Bank for India, but at the same time, they announced they had found it possible to embody in the fabric of a shareholders' bank the essence of the arrangements which opinion in the Legislative Assembly had claimed to be necessary in order to make it certain, as far as possible, that the Reserve Bank should ensure the interests of India as a whole and not the interests of one or other sections of the community, were represented.[3]

The new arrangement provided for separate Share Registers at Bombay, Calcutta, Madras, Rangoon and Delhi. Shareholders had to be domiciled in India or British subjects ordinarily resident therein, or British companies. No shareholder was to be registered on more than one register or hold more than Rs.20,000 of a total capital of five crores. But the introduction of the third Bill was held to be out of order because the second had not

[1] Dissenting Minute of Sir B. Blackett and six others. See also Minutes of J. W. A. Bell, M. Suhrawardy and K. Premchand, agreeing with this view.

[2] Findlay Shirras, *op. cit.*

[3] "Statement of Objects and Reasons," appended to third Bill. *Gazette of India*, Part V, 14/1/28.

been withdrawn and the Government was forced back to the second Bill in the hope of being able to alter it to fit the latest proposals. In face of strong opposition, however, the whole project was dropped. It is unlikely to be revived until some time before 27th January, 1931,[1] when the existing ten-year agreement with the Imperial Bank expires (and when the controversial issues raised by the Simon Commission will be in course of discussion, with the inevitable effect upon the general political atmosphere).

All this furnishes an extreme instance of nationalism in central banking—an excusable but nevertheless regrettable confusion. And a nationalist central bank will surely find great difficulty in working smoothly with the Anglo-Indian banks, whom it has no cause to thank for its inception. Bearing in mind the possible trend of political developments in India, it seems not unlikely that there may be difficult times in store for the banks.

At present, the Imperial Bank is not a true Central Bank, although it has, with its predecessors, a long and honourable record of public service.[2] It has not the management of the note issue, which is still in the unsuitable hands of Government; and it must, as a commercial bank, compete with the other trading banks. There is plenty of evidence that it actually does so.[3] Moreover, its Bank rate is not completely effective and depends too much upon the exigencies of Government finance. There is little cohesion between the Imperial Bank and the other elements of the money market, especially as the rediscount of hundis is accounted a sign of weakness. In times of stringency, the Exchange Banks, whose Head-offices are all[4] abroad,

[1] Perhaps at the behest of the recently constituted Mitra Committee.

[2] Its latest achievement in the liquidation of the Alliance Bank of Simla is to be noticed. The Bank has now (by the Imperial Bank of India (Amendment) Act, 1924) statutory power to lend money to companies in liquidation.

[3] E.g. Statement of Manager of the Allahabad Bank, *Hilton Young Report*, Appendix LXXVIII. Evidence of Exchange Banks (e.g. *Q.* 2656) before the *Chamberlain Commission*, etc.

[4] The Indian Specie Bank and the Alliance Bank of Simla, both Indian banks and both failed, are said to have entered the exchange business. It is now practically the monopoly of Anglo-Indian banks, on account of the acknowledged high position which they hold in London.

might (and in most cases do) look to London and not to the Imperial Bank for assistance, and in any case the constant availability of this assistance would at all times make it difficult for the Imperial Bank to bring the market under its control by any of the devices known to the more fortunately placed European banks. In fact the only circumstances which would infallibly make it worth the while of the Exchange Banks to resort to the Imperial Bank, would be rapidly fluctuating exchange rates, which might involve the banks in heavy losses if they resorted to London. Thus the Exchange Banks form a relatively unabsorbable and uncontrollable part of the Indian banking system. Their function is quite specialized and results in the anomaly that the exporter has far better financial facilities than the cultivator. The Exchange Banks do attract Indian deposits, but, on account of their specialized business, drain all the money to the ports in the busy season, when it is quite as much in demand up country. They have also shown little inclination to co-operate with the Indian joint-stock banks, and this is supposed to have been a cause of the 1913-15 disasters.[1] The study of their operations in India certainly suggests that where, in other countries, overseas banks form an important part of the banking system, difficulties of a comparable nature in connection with the Central Bank control, are very likely to arise.

Other factors make the Imperial Bank's position a difficult one. Partly because the Bills of Exchange Law is too imitative and does not provide specially for local instruments the cheque system in India is insufficiently developed (the total for 1926 of cheques cleared by all seven Clearing Houses in India was only Rs. 15,91,11 lakhs) and the control of credit obviously cannot go far unless credit instruments themselves become more popular. Then India is chronically under-banked and the influence which can be exerted by any one bank is therefore limited. Perhaps the most important factors in this state of affairs are, firstly, lack of

[1] The Report of the Committee of Inquiry into the failures is quoted by Wadia and Joshi to this effect. *Money and the Money Market in India*, p. 423.

deposits, which are either very scarce or cannot be attracted out of hoards, and secondly, lack of trained men. The Imperial Bank is attempting to supply this latter deficiency, but it is well known that in the Exchange Banks, Indians are rigorously excluded from any but the most mechanical tasks. In this matter it would perhaps have been politic to placate Indian opinion a little, as it is extremely doubtful whether Western institutions can or will supply the whole of India's needs for banking services. At present the European banks lend mostly to middlemen—Marwaris or other money-lenders, and behind them there is a long line of middlemen bankers and money-lenders before the final borrower is reached. Questions of security, therefore, prevent the direct relationships being established for European banks which are possible with the indigenous banks, and it seems certain that on these latter will fall the main burden of providing finance for the development of India's internal resources [1] in future. Their development is therefore vital for several reasons, and the co-operation of the London banks in the manner suggested, would be a tactical stroke of perhaps considerable significance later.

Of all the Dominions and Colonies, South Africa has gone farthest in adopting the Central Bank as a panacea for all financial ills. From the point of view that *both* of the only two large-sized commercial banks in the Dominion are directed from London, South African central banking experience of recent years should also prove of material interest.

*National* Bank agitations had arisen throughout the nineteenth century in South Africa despite the unfortunate experience with the Lombard and Discount Banks. The National Bank of the Orange Free State, for example, was

[1] Cf. Sir Basil Blackett's address on "Indian Banking" to Delhi University, 27/11/1925.

founded by the Government of the Republic in 1877 on the basis of the Diamond Field Settlement of £60,000 received from the British Government. The National Bank of the South African Republic was founded in 1891 as banker to the Government, with the right to issue legal tender notes. A small proportion of its capital was held by the Government, who appointed two of the eleven directors and had to approve of the appointment of at least half of the remainder. At the Cape, the most significant National Bank agitation began after the crisis of 1890, when a great part of the small local banks succumbed and left the field open to the large English institutions, the Standard Bank, the Bank of Africa, and the African Banking Corporation.

"The Afrikander Bond, Parliament and the Press all concerned themselves with the establishment of a National Bank. Indeed even the University of the Cape of Good Hope in 1896 awarded the Ebden Prize for the best essay on the desirability of establishing such an institution for the Cape." [1]

The essay itself describes the course of the National Bank agitation.

"Year after year, it has figured on the agenda of the Bond Congresses. . . . In 1892 at the Stellenbosch Congress, the same point was pressed by 17 branches and a resolution passed by unanimous vote in the following terms: 'This Congress deems it desirable that there should be a powerful banking institution, in the colony, connected by bonds of closer union with the people and Government of the country than the banks established here at present and wishes to direct the attention of the Government to the question of the feasibility of establishing such a bank.'" [2]

The agitation produced the Cape Bank Act of 1891 regulating the issue of commercial bank-notes on the lines of the American National Banking system, but it also produced a demand for a *central* bank on European lines from the more enlightened of the agitators. Of the concrete proposals made, that of Mr. Postmus, Inspector of the Netherlands Bank of South Africa, is interesting, in view of his present position as Deputy-Governor of the Reserve

[1] Arndt, *Banking and Currency Development in South Africa*, p. 404.
[2] The Prize Essay, *National Banks*, by J. de V. Roos, quoted by Arndt, p. 414, to whose work much that is informative in this section is due.

Bank. Mr. Postmus looked forward to the establishment of a Central Bank in South Africa on the lines of the Netherlands Bank and the Java Bank, but " with a sufficient number of branches in the country to serve the whole community." [1] Some other proposals were also made about this time, that is, after the federation of the South African colonies, but the War prevented any of them from being seriously considered.

At the end of the War, during which the commercial banks in South Africa had pursued an unblushing inflationist policy, the Union Government found, not unnaturally, that the gold still circulating inside the country was being steadily drained away in spite of the embargo of November 1914 on its export. At the Pretoria Gold Conference of 1919, it was agreed after opposition from the commercial bank representatives that the embargo on the export of specie from the Union should not be continued after the establishment of a Mint, which should be set up with all possible dispatch. Further, the Conference recommended " one uniform Bank Act for the whole Union, with stringent provisions against inflation." Only one member of the Conference proposed and voted for the establishment of a State Bank.

As a result of the Gold Conference, Bills were drafted which presumably would have embodied its recommendations, but having had the advice of Sir Henry Strakosch in the meantime, the Government chose to reverse the most important recommendation on lifting the embargo and produced a Bill authorizing the issue of Gold Certificates to conserve the gold supplies of the Union, in addition to one providing for the establishment of a Central Reserve Bank. The two Bills, the second of which certainly owed its inspiration to Sir Henry Strakosch, were considered together in 1920 by the now famous [2] Select Committee on the Embargo, appointed to consider the desirability of permitting the free movement of gold. Before the Com-

[1] From a lecture of Mr. Postmus reported in *Journal* of the Institute of Bankers in South Africa, April 1913.

[2] See Professor Cannan's article on " South African Currency " in *Economic Journal* of December 1920.

mittee Sir Henry Strakosch reproduced the scheme for a Reserve Bank outlined in his pamphlet :[1]

"Its business should be to act as the Banker of the Banks. It should not be, in any sense, a competitor of the commercial banks. Their cash reserves would, to a large extent, be deposited with it and only in times of emergency would it take an active part in the country's business. It would rediscount the bankable bills of the commercial banks in times of stress. . . . To protect its own reserves, it would regulate the general tendency of discount and money rates and by that means influence the financial policy of the commercial banks. . . . It must have the monopoly of issuing bank-notes. . . . Provision should also be made for the commercial banks to maintain a minimum ratio of cash to liabilities of 15 per cent., a substantial portion of which should be held as a deposit in the Central Reserve Bank."

The influence of American ideas is plain. Strakosch himself says "it is doubtful whether a better model can be found."

The South African banking position at the time was (and is) very peculiar. The following table gives an idea of this and supplies the reason why agreements as to rates between the South African banks could be arranged with even more facility than in the case of the Australian banks. What was wanted more than a controlling element in such a highly concentrated financial system, was not a Central Bank but a few more competing institutions.

Position of South African Banks as at 31/12/1920.
(Figures from *Official Year Book*. Branch figures from Arndt, p. 425.)

| | Branches. | Paid-up Capital. | Reserve. | Fixed Deposits. | Demand Deposits. |
|---|---|---|---|---|---|
| | | £ | £ | £ | £ |
| Standard Bank . | 384 | 2,229,165 | 2,893,335 | 25,495,583 | 26,647,550 |
| Netherlands Bank | 16 | 240,000 | 41,567 | 325,060 | 547,451 |
| National Bank . | 478 | 2,965,000 | 1,250,000 | 17,669,456 | 23,370,223 |
| National City Bank of New York . . . | 1 | 100,000 | — | — | 597 |
| Stellenbosch District Bank . | 1 | 8,400 | 28,000 | 124,569 | 74,924 |

[1] *The South African Currency and Exchange Problem*, Johannesburg, 1920.

At any rate, the project did not meet with unanimous approval. Mr. E. C. Reynolds, Managing Director of the National Bank of South Africa, said [1] (*Q.* 854): "The idea of establishing a Central Reserve Bank in a sparsely populated and undeveloped country such as Africa, seems to be an over-elaboration of the financial machinery required." Mr. Gibson, Senior General Manager of the Standard Bank said (*Q.* 1505A): "In my opinion, such a bank is not necessary in South Africa, as the existing banks with their extended branch systems are highly centralized. I do not, however, wish it to be thought that I am opposed to the establishment of a Reserve Bank which in the difficult years ahead may serve a useful purpose by affording rediscount facilities for expansion and in times of pressure . . ." but (*Q.* 1512) "after we get over this difficult period there would be absolutely no need for a Central Reserve Bank." Mr. J. W. Jagger, M.L.A. (*Q.* 1787) said: "The central bank is about the most absurd proposition that I have heard of . . . I should like to see any other body trying to control the Standard Bank or the National Bank"!

The question of possible competition was raised (*Q.* 1860). The Chairman (Minister of Finance): "You do not fear any competition from the central reserve bank?—(Mr. Gibson, of the Standard Bank): Not if you put in the right man to manage it . . . The central reserve bank should try to keep its reserves well above the limit, otherwise there is no room for expansion in times of need." Reference was made to the Commonwealth Bank of Australia as a desirable model in the evidence, but the Committee seems to have been so impressed by the arguments of Sir Henry Strakosch as to neglect to take sufficient advantage of comparable foreign experience. At any rate, the Currency and Banking Act of 1920, as it was finally passed, unmistakably bore the impress of American practice and "to a very large extent the provisions of the Union Act were taken from reports issued by the Bank of Java." [2]

[1] Minutes of Evidence, Committee on Embargo on the Export of Specie, *Union Reports of Select Committees*, 1920, Vol. I.

[2] Mr. Middleton, Under-Secretary for Finance: Evidence before *Kemmerer-Vissering Commission*, quoted by Arndt, p. 432.

The Bank was to be managed by a Board of eleven directors, three being nominees of stockholding banks, three "who at the time of their election must be actively engaged, one in commerce, one in agriculture and one in some other industrial pursuit" elected by other stockholders, and three appointed by the Governor-General, together with the Governor and Deputy-Governor, also appointed by him. No professional banker or politician was to be eligible. The capital was fixed at £1,000,000, of which one-half had to be subscribed at par by the commercial banks in proportion to their paid-up capital (this is what finally caused the withdrawal of the National City Bank of New York from South Africa); the other half was to be offered to the public, or in default, taken up by the Treasury. For the first few years dividends were to be subordinated to reserve requirements, and when the reserve finally amounted to a sum equal to the capital, stockholders were to get 10 per cent. and the Government the rest. Branches could be opened anywhere inside the Union or, with the consent of the Treasury, outside as well.

The Bank's business was that of issue, deposit and discount. Bills discounted—of a maximum tenor of ninety days (agricultural bills six months)—were to have two good signatures, but *bank* endorsed promissory notes were allowed "issued or drawn for the purpose of carrying or trading in Union Government securities."

Full powers of lending, and dealing in exchange and short-term investments were given, but the Bank may not accept money on deposit for a fixed term or allow interest on credit balances on current account. In addition, the Bank was given, and the commercial banks were deprived of, the sole right of note issue, the privilege to last for twenty-five years, and the notes to be secured as to 40 per cent. in gold and as to the remainder in commercial paper (one-fourth of the gold reserve could be held outside the Union). Against deposits and bills payable 40 per cent. gold was also to be maintained. Finally, every South African bank was to keep a reserve of 13 per cent. of its demand liabilities

and 3 per cent. of its time liabilities (in the Union) with the Central Bank.

The Amending Act of 1923, extending inconvertibility of the gold certificates to 1925, enacted some other important constitutional provisions. Firstly the three " bank " directors were now to be elected, two for commerce and finance and one for industry, by the stockholders, the commercial banks not now being obliged to hold Reserve Bank stock.[1] This change resulted from the difficulty of independent action by the Reserve Bank under the old system and the awkward position in which the directors and commercial bank representatives were placed from having to discuss the affairs of competitors who were customers of the Reserve Bank. It is perhaps doubtful whether the substituted " vocational " representation is really necessary. Secondly, the note issue arrangements were changed. Until 30th June, 1928, notes could be backed, not only by commercial bills but by Imperial or South African Treasury Bills (of a currency not exceeding ninety days) to an amount not exceeding 35 per cent. of the total note issue, or 140 per cent. of the total commercial bills held. Further, the Bank could buy, sell or rediscount bills of the central Government or local Governments in the Union, having a maturity of not more than six months. Lastly, the reserve requirements of the other banks were reduced from 13 per cent. (for demand liabilities) to 10 per cent.

The alteration in the basis of the note issue was, according to the Governor of the Reserve Bank, Mr. Clegg,[2] to

" enable *the balances which the banks have in London* to be utilized. . . . Under present conditions they cannot use these balances for South African trade. Under this arrangement they would be able to mobilize that credit for 3 months, or by arrangement with the Reserve Bank, for 6 months. In the meantime, as a rule the course of trade should have brought the exchanges down to parity, but in any case the Reserve Bank would always care

[1] Before the *Kemmerer-Vissering Commission*, it was stated that the two large banks still hold nearly the same quantity of Reserve Bank stock as before.

[2] Minutes of Evidence, Select Committee on Public Accounts, 1923. The Amendment Bill was referred to this Committee (*Union Reports of Select Committees*, 1923, Vol. I).

for its own interest by arranging at the time of discount for forward exchange " (*Q.* 1818).

A sterling exchange standard would be possible under this provision.[1] As to the extended rediscounting powers, the banks " may find it convenient and also you may find that a good deal of money, which goes out of the country to be employed in the short money market, will come to this country if they find that they can get a document which is discountable " (*Q.* 1851). The Reserve Bank, of course, will have to offer the South African banks terms as good as those obtainable in the London market in order to attract short money to South Africa in this way.

The final stage, the *Kemmerer-Vissering Report*[2] (the Commission was appointed mainly to consider the desirability of resuming gold payments, but it reported also on the allied banking question) suggested remedies for what had been discovered to be the shortcomings of the Reserve Bank as originally constituted, though not all the suggestions were carried into effect. " The first duty of such a bank," says the Report,

> " is to serve the public . . . through conserving the Money Market by preventing undue credit expansion or undue credit contraction, by maintaining the monetary standard through regulating the supply of currency to the varying demands of trade and through assuring the public, as far as possible, equitable rates of discount and exchange."

To perform these functions properly a Central Bank must be ready at any time to operate in the open market in order by so doing to make its rates effective. Further, the Bank must obviously pay its way. A broadening of the existing powers was therefore recommended. Loans to the *public* or to the banks on 120 days *one-name* Promissory Notes covering produce, ought to be permissible, as well as short-time loans to banks on Union or local Government securities with maturities *exceeding* six months, if the

[1] The arrangement for the backing of notes by Treasury Bills did not last long, as the Governor of the Bank, in his 1928 Report, refers to it as a " temporary device for special circumstances which have since become normal. There is therefore no need for its continuance."

[2] *Union Reports of Select Committees*, etc., Vol. III, 1925.

securities held by the Bank thereunder are not allowed to exceed the amount of its paid-up capital. "Your commissioners are informed that there is considerable high-grade 120-day commercial paper in the Union" and the 90-day discount rules should therefore be relaxed to 120 days. The permission to hold one-fourth of the gold reserve abroad was not wide enough. It should be sufficient to provide that 75 per cent. of the normal legal reserve requirements should be held within the Union so as to give the Bank power to strengthen its position and facilitate gold movements by selling earning assets abroad and buying gold if it so desired, without the necessity of shipping part of the newly acquired gold home to South Africa.

In order to help the Reserve Bank control the money market in South Africa, the Union Government should issue and the Reserve Bank should be prepared to discount, 90-day Treasury bills. The Treasury, in fact, was already issuing three-months bills (at a rate of discount to which the bankers' three-months deposit rate conformed) and the Reserve Bank signified its readiness to rediscount these after fourteen days at ⅛ per cent. above the rate at which they were issued—in order to encourage a short money market.[1] Further control of the market would be secured if the Bank gave preferential rates on trade acceptances, and this is now also done.

The Government should use the Reserve Bank as a depository. "If a commercial bank needs the use of Government funds, it should obtain them by loans or rediscounts from the Reserve Bank, not Government deposits. The Reserve Bank is in a better position than is the Government to measure such needs and to control such advances." The Government would lose interest, of course, but would presumably get some of this back through the Reserve Bank's profits. This recommendation was adopted

[1] This proved a rather inconvenient arrangement from the point of view that it gave holders an option to sell to the Reserve Bank any quantities of Treasury Bills at any time at a fixed price, and when the commercial banks announced in 1927 their intention of giving better rates for short money, the arrangement was therefore discontinued. The Reserve Bank will still buy Treasury Bills but not at rates fixed in advance.

by the Government in November 1926 with effect as from January 1927, and the 1927 Balance Sheet shows an increase in deposits of £3,800,000, of which £3,000,000 represents Government accounts.

The South African Reserve Bank is an interesting experiment on which it is at present a little early to pronounce final judgment, so that an analysis of its present position can only be provisional. The Bank was started at an unfortunate time, that is, when South Africa had begun to feel the effects of the world-wide depression after the war. The post-war boom had to be liquidated, and the Reserve Bank could help only by "occasionally easing the bumps." [1] This state of affairs lasted for at least two years, so that the actual working life of the Bank must be counted as barely five years. At its inception it was endowed with powers sufficient for a Central Bank of the usual type operating in Europe, and it has the task now of making these powers effective in quite an unusual environment, which includes practically only two commercial banks each twice its size, both controlled from London and one having extensive interests elsewhere.

The commercial banks obviously do not relish a "state-aided competitor," especially one which holds their own reserves, but there is a common belief exemplified many times in the evidence before the *Kemmerer-Vissering Commission* that if the commercial banks oppose the slight competition from the Reserve Bank necessitated by its recommended entry into the market, they would play into the hands of the State Bank agitators, that is, the South African Labour Party. (This is a point worth noting in connection with India, where "foreign" banks play a comparable part in the banking system.) The South African banks' point of view in this matter is clear:

> "There can be little object in establishing a reserve bank, if the reserves are to be used in competition with the other banks instead of being conserved against times of stress when the Reserve bank would be called upon to extend credit liberally. . . . In all the circumstances therefore, competitive rates as

[1] Speech of Governor at Annual Meeting, 1925.

between a reserve bank and its member banks for general business are out of the question." [1]

The actual strength of the competition offered at present is suggested by the following statements of the Governor of the Reserve Bank :

"The Reserve Bank may accept from the general public ordinary current accounts with credit balances and may discount bills. Whether many people will want to keep accounts with it which they may not overdraw and which they can replenish through accommodation only by the discounting of bills remains to be seen." [2]

The Governor said in regard to the business of new branches, however, that though they have not so far done much business, there is no doubt that their establishment in some of the commercial centres of the Union has caused a movement towards lower rates in the discounting of import and export bills. As a *potential* competitor of the commercial banks, therefore, the Reserve Bank exerts sufficient influence to ensure banking facilities at reasonable charges to the South African public. In the words of the Hon. H. C. Hull, a director, its dormant power "keeps the other banks up to the mark." *Some* competition there must be if the Bank is to pay its way and make contact with the market at all.

In regard to exchange, it can exert great influence on rates, as it normally holds large London balances, on account of its connection with the Government. There is another reason for these large balances. Before the English Gold Standard Act, when sterling was approaching par, the gold producers shipped the metal to London and sold it there, leaving the South African banks the task of getting these funds back to the Dominion. When the discount on sterling disappeared, however, it became more profitable to sell to the Reserve Bank for minting, and thus the Reserve Bank now ships gold for sale in London and re-sells the sterling obtained thereby, the effect being further to

[1] Mr. Gibson's statement, Appendix XIV of the *Kemmerer-Vissering Report.*

[2] Speech at Annual General Meeting, 1925.

strengthen its influence in the foreign exchange market. As regards control of credit, its power is restricted in this matter to the note issue, since as there is no short money market of any size in South Africa, its rediscount rate, although it is followed by the other banks, is not of much use, and will depend for its effectiveness on the popularity achieved by the commercial bill in South Africa in the future.

The Bank's relations with the commercial banks seem to be normally cordial. "Our good friends the commercial banks help us with the machinery of their far-flung branches" [1] in connection with the Government business (formerly managed by the Standard Bank), because the existing branch organization of the Reserve Bank at Cape Town, Durban, East London, Johannesburg and Port Elizabeth, is quite inadequate to deal with it. The Reserve Bank, on its side, gave considerable help to the National Bank in 1923, when the Governor was able to demonstrate not only the willingness of his own institution to help but the readiness of the Bank of England to discount in London the acceptances of the National Bank. But to maintain this solidarity with the commercial banks the Governor has a task so difficult that it points a moral to central banking agitators in other parts of the Empire. His only chance of controlling the local money market is to undertake ordinary lending business, for which the powers of the Reserve Bank are at present inadequate. Any move to extend them is sure to meet with opposition; any move to control a developing *short* money market by rate manipulation is equally sure to be defeated because the commercial banks can always escape penal rates by recourse to London.

Neither Canada nor New Zealand, of the British self-governing Dominions, has a Central Bank, but a movement for the erection of one exists in each country.

In New Zealand there are at present six ("associated")

[1] Governor's speech, 1928.

banks of issue: the Bank of New Zealand, the Union Bank of Australia, the Bank of New South Wales, the Bank of Australasia, the Commercial Bank of Australia, and the National Bank of New Zealand. The first is a semi-State bank, with control of about half the banking business of New Zealand, and the last is one of the Imperial banks controlled from London; two of the rest are Australian institutions and two Anglo-Australian. In addition there are a great many smaller and less well-managed concerns doing what is substantially banking business and competing with the ordinary banks for deposits, but having no power of note issue, for which incorporation by Act of Parliament is necessary.

The present agitation for reform centres round the future position of the Bank of New Zealand. The Bank was incorporated by Act of the New Zealand Parliament in 1861, and after some years of successful operation, incurred severe losses (through lending on land) in which the whole of its reserve and a large proportion of its capital were written off. In July 1890, the Head-office was removed to London, where much of the capital was held, but further losses necessitating a further writing down of capital, the Bank in 1894 appealed to the New Zealand Government for assistance. As a result of this, £2,000,000 of fresh capital was issued in London, guaranteed as to capital and dividend by the Government, and the Head-office was removed from London to Wellington. The Government also appointed the President and the Auditor of the Bank under this scheme, and an Assets Realization Board was financed by a public issue of debentures guaranteed by the Government, to realize the Bank's "frozen" loans. In 1898 an amending Act abolished the office of President and provided that four of the six directors should be nominated by the Government, this being the present position. Government control was also strengthened by the permission accorded to the Governor-General to veto resolutions of the Proprietors, and the Auditor (Government-appointed) may suspend the operation of such resolutions for 28 days in order to give the Governor-General time to exercise his veto.

Towards the end of the century, the economic position of New Zealand improved considerably after the introduction of refrigerator steamers for the export of frozen meat, and the prospects of the Bank improved in like manner. More and more capital was issued, and the Government itself in 1913 bought shares (mainly with an eye to profits) at a premium of 50 per cent., strengthening its interest, concurrently with fresh public issues. The position in this respect was clarified by the Act of 1920,[1] which provided that Preference "B" shares, forming the major part of the Government holding, and ordinary shares, held by the public, should in future be issued only in the proportion 1:2. The present capitalization (1928 Balance Sheet) of the Bank of New Zealand is:

SUBSCRIBED CAPITAL.

| | £ |
|---|---|
| Four per cent. Guaranteed Stock | 529,988 |
| Preference A Shares issued to the New Zealand Government | 500,000 |
| C Long-Term Mortgage Shares issued to the New Zealand Government | 234,375 |
| D Long-Term Mortgage Shares | 468,750 |
| Preference B Shares issued to the New Zealand Government | 1,375,000 |
| Ordinary Shares | 3,750,000 |
| | 6,858,113 |

About one-sixth of the ordinary share capital is still held in London.

The Bank of New Zealand is thus a semi-State bank, and proposals have been made recently to turn it into a full State bank. The early history of State banking in New Zealand certainly furnishes little support for the project. In 1847, an exclusive "Colonial Bank of Issue" was established in New Zealand (as a much perverted model of the Bank of England in 1844) by Ordinance of Governor Grey,[2] but the business of the Bank was to be merely the issue of notes backed as to one-fourth by cash and as to the rest

[1] Act 58 of 1920, Section 12 (2). By this Act the Bank was empowered to issue notes in New Zealand against the deposit of securities in London, i.e. erect a sterling exchange standard. The power has never been used.

[2] Dispatch dated 25/11/1847 from Governor Grey to Earl Grey, Colonial Office, submitting the Ordinance, P.P. 1847–8, Vol. 43, p. 345. See also Chalmers' *Colonial Currency*, Chapter xxix.

by 3-months' *loans*, the profits thereon to go to the Colonial Treasury. The English Treasury ultimately had the specie reserve increased to one-half and the rest invested in public securities, but this State issue of notes, founded as it was on Government expenditure, was never popular, never profitable, and never very large, and the Select Committees of the House of Representatives of 1854 and 1856 both recommended its abolition. This was finally effected by the Bank Paper Currency Act of 1856 which permitted the Governor to restore to the Union Bank of Australia and Chartered Banks in general the rights of issuing notes in the Colony, so that this early experiment in State banking therefore ended in ignominious failure.

The modern State bank agitation, that is, the movement for converting the Bank of New Zealand into an institution owned and managed solely by the Government, originated before the War,[1] and a definite proposal was, in fact, made in the New Zealand Parliament in 1913 at the time of the debates [2] on the 1913 Bank Act (providing for an increase in the capital of the Bank of New Zealand). It was felt, however, that the experiment of the Commonwealth of Australia in this direction would soon provide a fund of valuable experience capable of application in New Zealand, and the project was therefore shelved, especially as it was alleged at that time that the State nominees on the Board of the Bank of New Zealand had not always commanded confidence, and that, in fact, complaints had been made of political pressure being exerted on the Bank.[3] At the time of the 1920 Act, however, the idea was revived, and an amendment was moved [4] suggesting the desirability of the Government taking steps to have the Bank State-owned and managed, on the model of the quasi-Central Bank in Australia. The motion was well supported but was finally ruled out of order.

[1] A State Bank Bill introduced in the Council in 1886 was afterwards withdrawn.

[2] *New Zealand Parliamentary Debates*, Vol. 167, p. 59, speech of Mr. Rigg.

[3] *Debates*, Vol. 167, p. 67.

[4] Bank of New Zealand Bill Debate, speech of Mr. Cragie, *Parlty. Debates*, Vol. 189, p. 486.

The agitation, for the emergence of which there appear to be no *special* reasons peculiar to New Zealand, has still not died down, in spite of the dominating position already held in the Bank's counsels by the New Zealand Government. Whenever banking questions are discussed, the project is resurrected in one form or another, sometimes at the behest of the farmers and sometimes as part of the general Labour or Liberal programme, and it is, perhaps, the anomalous position of the Bank which makes it specially vulnerable to these attacks—even invites them. The Government is unwilling to use its power to the full and accept responsibility for the policy of the Bank by forcing the adoption of its own views through pressure put upon the nominated directors, but at the same time, it is unwilling to enlarge the function of the Bank to embrace the usual activities of a central institution, by giving it the sole control of the note issue, for instance, or the custody of the gold reserves. The difficulties of the position are well illustrated by the declaration of policy made by the Minister of Finance in 1927, on the occasion of a rise in the bank (overdraft) rate. The Minister said: [1]

"My view of the Government's relation to the Bank of New Zealand was that the Government having an interest in the Bank and having representation on the board of directors, was fully entitled, in the interests of the Dominion, to discuss with the Bank of New Zealand the general position, without being accused of political interference. But it did seem to me that if, when we had made representations to the Bank and had discussed the matter fully with the Directors, they still thought the position necessitated a rise in the overdraft rate, it would be very difficult to see what further steps the Government could take short of interfering with the independence of the Directors. Obviously our only further course would be to remove the present Directors or refuse to reappoint them. If that course had been adopted, I think it would have caused grave uneasiness in the public mind as to how far political interference with the banks might go."

What the Minister means is apparently quite different from what the State bank agitators mean because he states he

[1] Mr. Downie Stewart's speech in the New Zealand House of Representatives; *Debates*, Vol. 212, p. 394.

"would not have the slightest objection, if it were shown that the Bank of New Zealand was not doing justice to the requirements of New Zealand, to discussing the whole question as to whether we could with advantage establish a State institution, but in any event if a State bank is set up, *it should be free from political pressure or control.*"

As the Minister subsequently quoted Sir Ernest Harvey in support of this, but at the same time mentioned buying out the private shareholders, it is not clear whether he refers to a State bank or a Central bank, and the numerous references to, and eulogies of the Commonwealth Bank of Australia (with its present indefinite status) do not help.[1]

It is difficult to see what advantages a State bank would have for New Zealand. First it would cost the Government about £10,000,000 at present market valuations, to buy out the present shareholders, and in view of the preponderance of Government nominees on the Board (though these are elected for their business experience) it is doubtful whether this expensive change would be a profitable one for the country.[2] Nor would a Central bank help much in view of the fact that nearly a half of New Zealand's banking needs are met by Australian institutions, and that three of the commercial banks are capitalized in London. New Zealand, like Australia, can hardly escape from the position of a financial satellite of London.

The first projected Central bank in Canada was Lord Sydenham's Bank of Issue, which was never constituted.[3] The long continued stability and success of the chartered

[1] At the time of the passing of the London-New Zealand Bank Act (No. 4 of 1928) the State Bank project was again brought forward and, in fact, suggestions were made that there was a veiled political motive behind the establishment of *this* bank. The institution is, however, a private one, and it is significant that at least half of the nominal capital of £3,000,000 is expected to be raised in London. The promoters are business and professional men and farmers.

[2] Sir Joseph Ward has, since this was written, declared definitely against a State Bank (Aug. 1929).

[3] See Breckenridge, *Canadian Banking System*, Chapter iii.

bank system in Canada and its obvious merits in comparison with the American system before the war, disarmed much serious criticism until quite recently. As in New Zealand, the chief dissatisfaction with the system is felt amongst the farmers, and the earliest records[1] of the present Canadian Council of Agriculture (1911), show that much interest was taken in the decennial revision of the Bank Act undertaken just before the war. In 1914 representations were to have been made by the farmers to Sir Robert Borden, the Prime Minister, and Sir Wilfrid Laurier, Leader of the Opposition, that banking reforms were needed, particularly in the direction of dispersing excessive financial concentration and of lowering money rates, but the outbreak of the war distracted attention from the banking question, and when the "Farmers' Platform" was drafted in 1917, and used as the programme of the farmers' political movement, culminating in the elections of 1921, there was no reference to the banks at all. At the time of the post-war depression, however, interest naturally reverted to the banking question, and a considerable agitation was aroused in time for the revision of the Bank Act in 1923.

At the same time, the chartered banks resisted strenuously any movement for reform along these lines, suggesting that "the Western farmers have been misled by uninformed agitators into believing that a National bank like the Commonwealth Bank of Australia will supply them with desired credit."[2] The battle was carried to the Banking Committee dealing with the Bank Act revision, and a plan for a Canadian Federal Reserve Bank[3] submitted to the Committee, though without much effect. After almost yearly debates and inquiries on the question since 1923, the controversy was carried a stage further by a Resolution of 13th February, 1928, of the Canadian House of Commons recording that "the time has come for the consideration of the improvement of our banking system and that the

[1] I am indebted to Mr. Darby, Director of Economic Research, Canadian Council of Agriculture, for copies of these.

[2] *Banks and Banking*, a pamphlet issued by the Canadian Bankers' Association defending the chartered bank system.

[3] *Journal of Canadian House of Commons*, 1923, Appendix IV.

Banking and Commerce Committee be instructed to study possible improvements and report thereon." The Resolution as moved by the member for Winnipeg North Centre, in its original form, stated "That in the opinion of this House, the time has come for the establishment of a national system of banking," and this sufficiently indicated its source. The Finance Minister, the Hon. J. A. Robb, had intimated that the Government had no intention of permitting any amendments to the Bank Act at present, so that the appointment of the Committee to investigate possible improvements in the system in terms of the above resolution, cannot be considered as a precedent to legislation, though no doubt the Report will be taken into consideration at the next decennial revision of the Bank Act in 1933.

The Committee (a standing Committee of the House of Commons) reported that early in the proceedings one major proposal to a large extent monopolized attention, viz.:

"that a Central Bank of Issue and Rediscount, somewhat analogous in its relations to the Canadian banking system to that of the Federal Reserve Banks to the United States system should be established in Canada. It was urged that through the 'open market' operations of such a bank and variations in rates of interest in accordance with changing monetary conditions, control of credit could in some degree be exercised, and that the institution might become a medium through which commodity price levels could be regulated." [1]

An outline constitution of a "Federal Reserve Bank of Canada" was again discussed. But the Committee were not convinced of the efficacy of a Central bank in this direction, and the evidence of Governor Harding (of the Federal Reserve Bank of Boston) seems to have caused serious misgivings as to the wisdom of a too slavish imitation of the American system.

"From what I know of your situation in Canada," he said, "it would be absolutely impossible for you to have a regional system such as we have in the United States. . . . I think I know enough about your situation to know that a Federal Reserve system, organized on the same basis as in the United States, would be impossible in Canada."

[1] *Select Standing Committee on Banking and Commerce*, May 1928.

The Committee contented itself therefore with a report that

"the preponderance of evidence indicated that the operations of a Central Bank of Issue . . . exercised only an indirect or limited influence over price levels and that many of the functions attributed to such Central Bank of Issue and Rediscount were already being performed through the Finance Act."

A Central bank in Canada would involve very drastic changes in the banking system. A transfer of the note issue powers at present enjoyed by the chartered banks, would sooner or later be necessary for its effective operation, but there seems a natural hesitancy to advocate such a drastic step even amongst the most radical reformers, especially in view of the well-known fact that the less remunerative branches of the banks in Western Canada exist only because they can be financed cheaply by notes, instead of being obliged to maintain expensive cash balances. There may, perhaps, be some reason in the proposal to allow the incorporation on easy terms (and without the "double liability") of non-note-issuing commercial banks and "people's" banks, but the transfer of note-issuing rights from the chartered banks altogether would involve a cataclysmic change indeed in Canadian banking practice.

Outside the note issue, "rediscounting" facilities are provided by the Government for the banks under a war amendment to the Finance Act, passed by Finance Minister Sir Thomas White, in 1914 (when Canadian Banks were unable to rediscount in London). The arrangement was made a permanent part of the financial structure of the country in 1923, and provides that advances from the Government may be obtained by the banks against the pledge of British and American public securities; commercial bills are also admissible, if secured by documentary title to produce; and promissory notes and bills of exchange issued or drawn for agricultural, industrial or commercial purposes. The advances are made in Dominion notes, which are generally deposited in the Central Gold Reserve, leaving the bank free to issue its own notes up to the amount of the advance. The rates charged by the Treasury Board for this accommodation have varied from 5 per cent. to

3¾ per cent. Some banks, according to the evidence submitted to the 1928 Committee, never have recourse to this source for additional funds, but it is certainly the main weapon of credit control in Canada, though it is inevitably tied very much to the New York money rates. An undesirable feature about the scheme is the fact that it is in the hands of Government officials who are presumably without the expert knowledge demanded,[1] and who are liable to be accused of favouring individual banks, but a Central bank created simply to carry out this duty would be foolish ; and access to London and New York for the Canadian banks is so easy, that they could be quite independent of any such institution.

It is difficult to resist the conclusion that central banking has been adopted by the financial authorities in the Dominions and India, in an excess of optimism as to its potentialities for financial good. Its principles, as enunciated in the United States and Europe, at least, are not yet free from controversy, but with the most generous interpretation possible, they do not appear to possess any very overwhelming attractions for predominantly agricultural areas such as the Dominions and Colonies. On account of the "agricultural lag," fluctuating price-levels may affect the farmer probably more than the industrialist, but it is certainly not now admitted that in practice Central banks can interfere to alter price-levels even for the benefit of the farmer, in face of action on the part of any other economic factor of perhaps much greater weight ; and interference with the object of affecting prices in a country whose eco-

[1] The present (early 1929) curious exchange position in Canada is interesting in this connection. Rates are below gold export point, but gold shipments from Canada, although considerable in the early part of the year, have fallen off rapidly. It has been suggested that the Government has been forced to co-operate with the banks in restricting the outflow, because of excessive loans granted by the Treasury Board to the banks under the Finance Act.

nomic life is dominated by the fate of some great staple crop, is certain to be much more difficult, if not entirely impracticable. Moreover, orthodox methods such as the discount rate manipulation, depend obviously upon the development of a bill habit and a local short money market, and no part of the British Empire outside London can be said to have reached the minimum standard of development in this direction yet. It is clear also that in places where the demand for loans is inelastic, as is commonly the case in these agricultural communities (even with money rates at high levels), discount rate movements will never possess much significance, and their psychological effect can never be as great as in the older European countries, because of the lack of a long tradition of leadership behind the newly-fledged Central banks of the Empire. Loan "rationing" as a normal central bank weapon, would probably meet with difficulties for similar reasons, and especially where, as in the case of Australia, the bank is viewed with suspicion in some quarters, as the representative of sectional interests.

But even if it be admitted that local money markets can be properly developed in a reasonable time ; or if it be admitted that the Central bank might be able to control the existing financial organization by the ultimate expedient of entering the market itself as an ordinary lender, there is still one important reason for believing that the action of the bank in attempting to control the creation or the restriction of credit would be liable to absolute frustration. The reason lies in the general superiority of London as a monetary centre. The commercial banks of the Empire normally have access to London for rediscounting facilities and for the investment of their floating funds because they find a better market there than in their own spheres of operation—the demand for and the supply of short money is infinitely greater. Any restrictive measures on the part of the Central bank, therefore, could be disregarded at will by the commercial banks with intimate connections with London ; any expansive tendency might equally be nullified by a flood of floating money from London. These last considerations

raise some doubt as to the wisdom of the recent panegyrics [1] on the principles of central banking and suggest that these principles are not by any means capable of universal application.

The position of the Imperial banks in this connection is of interest. It may well be asked whether the Reserve Bank of India or the South African Reserve Bank will find their operations hindered by the presence in the local banking system of very large and powerful institutions, whose shareholders, direction and financial support, come from a centre altogether external to the Central bank's own sphere. To escape a Central bank's penal rate for rediscounts, all these banks would go to the London market or the Bank of England, and short of a very thoroughgoing form of co-operation between the Bank of England and its prototypes in the Dominions and India, no local Central bank can stop a practice which is obviously fatal to its assumption of money market control. It seems certain that for very many years yet, the local monetary centres of the Dominions and Colonies will be altogether subjected to London, and that independent monetary policies will be practically impossible.

A final point supports this argument. The quasi-Central banks of the Empire all keep relatively large proportions of their resources available in London, and are therefore just as much interested in and affected by conditions in the London Money Market as the commercial banks which they seek to control. The banks concerned hold large sums as Government agents, as receivers and disbursers of Government sterling loans, and for general exchange purposes. The following table (extracted from balance sheets) gives an idea of the figures :

[1] E.g. " It may safely and definitely be affirmed that it is highly desirable that the system " (central banking) " should be introduced in all those parts of the Empire which have not already established it." Sir Henry Strakosch, in a paper on " A Central Banking System for the Empire," read at a private gathering of bankers, business men and economists, *Bankers' Magazine*, June 1921. See also Evidence of the Governor of the Bank of England before the *Indian Currency Commission*, in favour of the Reserve Bank project (Minutes of Evidence, Vol. V, p. 253). Also Sir Ernest Harvey's opinions cited before.

Resources in London (000's omitted).

*Commonwealth Bank.*

| | 1921. | 1922. | 1923. | 1924. | 1925. | 1926. | 1927. | 1928. |
|---|---|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ | £ | £ |
| Money at Short Call in London . . . | 10,715 | 9,210 | 6,805 | 10,630 | 16,185 | 5,710 | 4,435 | 9,798 |
| Bills receivable in London and Remittances in Transit . | 1,937 | 2,140 | 1,476 | 3,167 | 2,231 | 4,353 | 4,263 | 3,185 |
| Total Assets (excluding Note Issue Dept.) . . . . | 70,622 | 74,467 | 78,290 | 78,231 | 85,490 | 85,782 | 91,008 | 52,420[1] |

[1] Savings Bank separated.

*Imperial Bank of India.*

| | 1921. | 1922. | 1923. | 1924. | 1925. | 1926. |
|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ |
| London Deposits . | 35 | 168 | 738 | 1,243 | 1,016 | 857 |
| London Advances . | 343 | 738 | 434 | 929 | 1,098 | 861 |
| Cash and Bank Balances in London . | 45 | 23 | 343 | 369 | 47 | 49 |
| Total Assets (Rs.) | 82,83,53 | 82,19,00 | 1,01,22,01 | 96,93,90 | 94,18,60 | 91,31,64 |

*Reserve Bank of South Africa.*

| | 1923. | 1924. | 1925. | 1926. | 1927. | 1928. |
|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ |
| Balance with Bank of England . . . . | — | 70 | 114 | 609 | 630 | 1,743 |
| Foreign (i.e. London) Bills discounted . | 550 | 1,639 | 3,917 | 4,477 | 6,527 | 6,408 |
| British Treasury Bills. | — | 1,305 | 590 | 887 | 1,822 | 1,684 |
| Total Assets . . . | 16,354 | 17,391 | 17,929 | 15,684 | 20,425 | 20,585 |

In no case are British Government securities stated separately; these would probably increase the proportion of London assets considerably. The unusually small figures of the Imperial Bank of India are explained by the restrictions on its London business. The new Reserve bank, if entrusted with the management of the remittance business of the Government of India, would play a considerably more important part in London than the Imperial Bank.

If these banks keep an important part of their *earning* assets in London, it follows that their own monetary policies will be governed to some extent by the policy of the Bank of

England. Higher short money rates, for instance, brought about by a rise in bank-rate, will increase the revenue from London balances, and will pave the way to *lower* rates in the Dominions. A further 1 per cent. interest earned on the £10 millions of call money appearing in the balance sheet of the Commonwealth Bank, would permit nearly a 1 per cent. reduction in the rate of interest charged on the £13 millions of loans. If the "Central" banks do not take advantage of this, the Imperial commercial banks certainly will.

A higher proportion of *gold* kept in London may, on the other hand, apparently enable the Empire Central banks to exert considerable influence upon the policy of the Bank of England, whose reserve ratio and therefore discount policy, might be exposed to interference, due, for example, to large gold exports for urgent use overseas. And if this sort of influence could be brought to bear wilfully and very powerfully, it might so affect bank-rate as to alter the margin between home and overseas money rates and induce or repress the flow of funds to the overseas centre. But this is hardly likely to occur, because in general more than half of the gold reserves available will be held and used in the country where they belong and the rest will not be large enough to produce much effect. Further, the Currency and Bank Notes Act of 1928 provides for discretionary expansion of the Fiduciary Issue in contingencies of this sort. The size of and the movements in the Indian *Gold Standard Reserve* (an extreme case) are an admittedly important factor in money market conditions, but the adoption in India of the Gold Bullion Standard and the operation in England of the 1928 Act, will relieve the situation considerably and the subsequent London gold holdings of either the Indian or the Dominion "Central" banks should not normally create disturbing influences.

## CHAPTER VI

## THE INTEGRATION MOVEMENT

It is not so very long ago since any adventure in overseas business on the part of the English banks proper was regarded with suspicion,—when the so-called "Exchange" banks of the East were not looked upon as banks at all. Mr. Crake, a director of the London and Westminster Bank, said in evidence before the Select Committee on Banks of Issue of 1875, that

> "speaking for the London and Westminster Bank, we hold . . . that the public entrust us with large deposits and large funds and that the security of our property should be here on the spot and not broadcast over the world; that our credit and our funds should be available here and not made use of as it were by granting a double credit in foreign and colonial countries either in India or Australia or America or wherever it may be. We hold that the depositors have a right to look for the proceeds of their property entrusted to us being on the spot and not used abroad."

"The Indian establishments which call themselves banks," said the Deputy-Governor of the Bank of England at this Inquiry, "(though they are not banks at all) are formed more for the purpose of carrying on mercantile and exchange business than banking business." Yet in 1918 Lloyds made great efforts to secure a holding in the National Bank of India, one of the institutions which were "not banks at all," and in 1925 banking policy had so far changed that Sir John Ferguson's inaugural address to the Institute of Bankers could tentatively put the question: "Is there any sound reason for believing that the scope for British Banks in the Empire is as restricted or limited as it is in foreign countries?"

The integration movement amongst British and Colonial

banks can be divided into several parts. Amalgamations amongst the Colonial banks proper need not be considered from the present point of view, except to notice that in some cases they were defensive measures adopted to resist " foreign " incursions. The attempted combination in South Africa after the advent of the London and South African Bank and the Standard Bank in the 'sixties and the amalgamation of the Presidency banks on the threatened entry of more foreign capital, were clearly of this character. Unions between Imperial banks operating in the same territory may be set aside as they were usually caused by factors peculiar to the area. In the case of Australia, for instance, the banks found, after 1911, that their old system of specializing in the banking business of one State had to be abandoned in the face of competition from the Commonwealth Bank, which was opening branches in every State. The amalgamation between the English, Scottish and Australian Bank and the London Bank of Australia, both London banks, with complementary branch systems in Australia,[1] was therefore directly conditioned by this. A further series may be briefly dismissed—the junctions which were effected by new Imperial banks anxious to obtain a footing on as cheap terms as possible, in colonial territory. The amalgamations of the Bank of Australasia with the Cornwall Bank at Launceston (1835), the Union Bank of Australia with the Tamar Bank (1837), the National Bank of New Zealand with the Bank of Otago (1872), the African Banking Corporation with the Western Province Bank, the Worcester Commercial Bank and the Kaffrarian Colonial Bank (1891–2),[2] are all examples of this, where the new capital involved was comparatively insignificant, and all that was wanted was a footing in new and unknown country. This procedure was generally cheaper than that of opening new branches in direct competition with the existing banks, because considerable time might elapse before the colonial branches began to pay their way, especially as in many

[1] In New South Wales there was no overlap at all, with the exception of Sydney. In the suburban and country districts of Victoria, there were only three cases of overlap.

[2] Arndt, *op. cit.*, p. 295.

instances an obviously "foreign" bank might have found extreme difficulty in cultivating new business. Of a similar sort was the amalgamation of the Mercantile Bank of India with an institution of about one quarter its size—the Bank of Mauritius (a reconstruction of the local business of the old Oriental Bank), in 1916, but in this case both banks were London concerns.

Normal business rivalry and the failure of weaker banks to stand against competition, was responsible for another kind of amalgamation. In particular, the Bank of British Columbia, one of the two English chartered banks in Canada, was absorbed by the Canadian Bank of Commerce in 1900 for this reason. The Canadian Bank of Commerce (according to the Chairman) "will be compelled to open branches in these parts" (British Columbia and San Francisco), but as agency arrangements existed between the two banks they preferred to suggest amalgamation before competing. In 1894 the charter of the English bank had been renewed for seven years, with an intimation that it would probably not be renewed again, and the Bank had suffered severely from the depression and heavy losses of 1893. It therefore accepted the offer of just over £22 for its £20 shares, the market value of which was £16–£17. A parallel case is presented by the amalgamation in 1912 of the National Bank of South Africa (a colonial bank) and the Bank of Africa, a London institution formed in 1879 to take over the business of the Oriental Banking Corporation in South Africa. The Bank of Africa chairman referred to "the difficulty of any great extension of your business on safe and profitable lines owing to the severe competition . . . and to the fact that your principal rivals have secured and are likely to retain, the bulk of the accounts of the Government and the mining companies." The advantage from the point of view of the National Bank was a substantial network of branches at the Cape where it was formerly inadequately represented.[1] In 1916, as a further instance, the business of the Delhi and London Bank was divided, the Indian business and six Indian branches going to the Alliance

[1] Arndt, *op. cit.*, p. 390.

Bank of Simla, an Indian joint-stock bank, and the English business going to Boulton Brothers of London. The Alliance Bank in 1915 had deliberately set out on a policy of amalgamation and subsequently absorbed other local banks, the Bank of Rangoon, the Bank of Upper India and the Punjaub Banking Corporation. Its increased business from the Delhi and London, and its connection with Boulton Bros., served to increase its dividend slightly, but this connection ultimately proved fatal when, in April 1923, the Bank suspended on account of the failure of Boulton Bros. who held a controlling interest in the Alliance Bank and acted as its London agents.

But a new and most important series of amalgamations during and after the War, caused by quite special factors, may be said to have commenced with a grandiose scheme of Lloyds Bank, formulated and in part carried out in 1918. The Bank then absorbed the Capital and Counties Bank, purchased shares in the National Bank of Scotland and exchanged shares with the London and River Plate Bank.

> "It is generally understood that the original scheme of Lloyds involved the establishment of close connections with *one of the Indian* [1] *and one of the Colonial Banks*, but that portion of the scheme appears either to have been dropped or to have been vetoed by the authorities. So far as can be gathered, however, the restraint has come not so much from the Committee of the Treasury as from quarters directly connected with the countries in which the banks concerned conduct their operations." [2]

One part of Lloyds' scheme was interesting in view of subsequent developments. A "General Council" was set up, composed of representatives of Lloyds Bank and the Associated Banks, whose duties included "the gathering and recording of intelligence and keeping in the closest possible touch with the changing financial and commercial conditions both at home and abroad so that they may be in a position to advise the Board in regard thereto."

This new development is explicable in terms of a variety of factors, a good many of them directly dependent upon the War. The War had the effect of consolidating the Empire

[1] I.e. National Bank of India. See Chapter v.
[2] *Bankers' Magazine*, August 1918.

politically and economically, and the consequential arrangements made for pooling resources involved the movements of enormous quantities of raw materials from the Colonies and Dominions to the United Kingdom, which all had to be financed by the Colonial and Imperial banks directly, with close support from the English banks. Further, the English banks had the most direct incentive to undertake overseas business in general because the foreign banks in London which had formerly monopolized it, had now disappeared, and the new Foreign Departments began to undertake colonial business as well as foreign business. Some importance also is to be attached to the general desire to keep abreast with industrial expansion and the ambition to reap some of the larger gains which were to be had in overseas banking. Some also to the desire to keep pace with foreign countries, so that after the War this country should not be handicapped in reconstructing its overseas trade because of limited banking connections. No one reason accounts for the new developments, and, apart from European extensions due to the expectation of temporary profit from exchange business, it is probable that the War merely speeded up a movement which would have attained considerable development by now in any case.

Just before the announcement of Lloyds Bank's overseas acquisitions, an important amalgamation was arranged in 1918 ("The most important bank merger in Canada's history," according to the *Journal of the Canadian Bankers' Association*) between the Bank of Montreal and the Bank of British North America, the latter being the only bank in Canada with a Royal charter and the only bank in Canada operated from London. The news

"came as a great surprise to the business public in Canada. The Bank of British North America has been prominently identified with Canada's financial history since 1836; and during all those years it has pursued a dignified conservative course, adhering to sound banking principles and giving every legitimate support to the business community. However, the offer was very tempting. . . ." [1]

It was. The Bank of Montreal offered £75 in cash for

[1] H. M. P. Eckhardt in the *Bankers' Magazine* of October 1918.

each £50 share of the Bank of British North America (of a market value of about £65) or two shares (nominal value $100 each, market value about £40 each) in the Bank of Montreal. The prospective dividend on the English shares was about £4 and on the two Bank of Montreal shares about £6 (including bonus). The Agreement, dated 23rd July, 1918, provided *inter alia* that

"the Purchaser will procure that two of the directors of the Vendor shall upon the completion of the said sale be appointed to be members of the London Committee of the Purchaser, and the Purchaser shall also pay to the Vendor for the use and benefit of the Members of the Court of Directors of the Vendor the sum of £16,665 in cash in London."

Position before Amalgamation.

| | Bank of Montreal. | Bank of British North America. |
|---|---|---|
| Capital . . . . | $16,000,000 | £1,000,000 |
| Reserve and Rest . . | 18,350,568 | 708,703 |
| Notes and Deposits . | 389,264,763 | 13,404,670 |
| Branches . . . | 184 | 90 |
| Dividends . . | 1913, 10% p.a. + 2% bonus | 1913, 8% p.a. |
| | 1914, ,, ,, ,, | 1914, 8% ,, |
| | 1915, ,, ,, ,, | 1915, 7% ,, |
| | 1916, ,, ,, ,, | 1916, 7% ,, |
| | 1917, ,, ,, ,, | 1917, — |

The dividends of the amalgamated institution rose from 12 per cent. in 1918 to 14 per cent. in 1919, 1920 and 1921.

Since Lloyds' original scheme "involved the establishment of close connections with one of the . . . Colonial Banks" and it was announced only three months after the absorption of the Bank of British North America by the Bank of Montreal, it is perhaps not unreasonable to assume that Lloyds intended taking over the Canadian bank, but were purposely forestalled by the Bank of Montreal, which, as the acknowledged leader amongst the Canadian banks, felt itself bound to resist this new form of dictation from Lombard Street. This seems more likely, as the terms offered by the Bank of Montreal were unusually munificent. Both banks were in excellent condition at the time, there was no case of amalgamation in order to strengthen the weaker member, and, since the Bank of Montreal was already well represented all over Canada, this was no case of geographical expansion. If the Bank of Montreal really moved in order to forestall

Lloyds, this is a most interesting case (and one that conceivably might have much wider bearings) of the amalgamation movement in England producing reactions all over the Empire. The exactly parallel case of the attempted absorption of the National Bank of India by Lloyds and the consequent hurried amalgamation of the Presidency Banks is noteworthy in this connection.

Lloyds next secured a holding of shares in the National Bank of New Zealand. It is significant that in 1917 the question had been raised at the annual meeting whether it would not be advisable to transfer the Head-office of this Bank to New Zealand, since more than half of its share capital was held in New Zealand, more than 80 per cent. of its business done there and " more than 80 per cent. of the profits are made in New Zealand on capital supplied in New Zealand." The Chairman rejected this, apparently in view of the value of a London connection, which must have stood in good stead subsequently. At any rate, in 1919 the Chairman, the Hon. Pember Reeves, announced the issue of 100,000 new shares to accommodate a new arrangement made with Lloyds. The Bank wanted new capital to retain old connections and also to occupy new ground. " We happen to be the only bank in New Zealand both with interests entirely identified with the Colony and also independent of either State or Australian control. . . . A portion at least of the popularity and support we receive in New Zealand is due to this position." Therefore the acquisition of fresh capital by an amalgamation giving outside control would be " impolitic," whereas a working alliance with a clearing bank would improve the Bank's position and credit without entailing outside interference. Lloyds took up 50,000 shares (an $\frac{1}{8}$th interest) of £7 10*s*. each, £2 10*s*. paid, the price paid being £5 10*s*. per share. The March 1919 balance sheet of this Dominion bank shows the following figures :

| | Liabilities. £ | | Assets. £ |
|---|---|---|---|
| Capital . . . . . . | 750,000 | Coin and Bullion . . | 1,366,032 |
| Reserve . . . . . . | 730,000 | Cash at Bankers and at call . . . . . . | 807,912 |
| Notes . . . . . . | 1,177,271 | Investments . . . | 1,413,264 |
| Deposits and Current Accounts . . . . | 6,481,557 | Discounts . . . . | 802,109 |
| | | Advances . . . . | 5,117,100 |

The next advance in the war and post-war amalgamation movement is also to be credited to Lloyds. This was the purchase of a substantial holding of shares in the Bank of British West Africa, and the exchange of directors.

"The arrangement with Lloyds Bank was not a sale of their business to the great institution, nor was it an amalgamation, nor did Lloyds Bank acquire control over their business. What that institution acquired was a great interest and influence in their business." [1]

It is relevant to add (in the case of this and other amalgamations) that at the same time as Lloyds acquired a great interest in this business, the other clearing banks presumably lost theirs, so that the tribute which the West African bank formerly drew from all the great London banks in collection, exchange, drafts and general overseas business, now came from Lloyds alone. The Bank of British West Africa had been formed in 1894 in Liverpool, to acquire and carry on the business which was originally commenced at Lagos in 1891 by the African Banking Corporation, Ltd., bankers to the Government of Lagos. In 1893, the African Banking Corporation withdrew from Lagos, and after a period of negotiations with the Government for the establishment of a public bank, the Bank of British West Africa, Ltd., was established in May 1894, and under agreement with the Crown Agents for the Colonies, was appointed the Government Bank, with the duty and responsibility of controlling the silver currency. The Bank had obtained an almost complete monopoly in West Africa by the absorption in 1912 of the Bank of Nigeria,[2] and in 1918 (a year after the Colonial Bank had entered West Africa) it had forty-one branches altogether, including offices at London, Manchester, Liverpool, New York, Morocco, Egypt and the Canary Islands. The balance sheet of 31/3/1918 (before the issue of fresh capital) showed the following :

[1] The Earl of Selbourne, at Bank of British West Africa Annual General Meeting, July 1919.

[2] This bank was started because Sir Alfred Jones' purchase of the old African Banking Corporation (with its monopoly in West Africa) practically forced traders to ship by his line—the Elder Dempster, and the Bank of Nigeria represented an attempt to break this double monopoly (McPhee, *Economic Development of British West Africa*).

| | £ | | £ |
|---|---|---|---|
| Capital . . . . . . | 580,000 | Drafts . . . . . . | 206,112 |
| Reserve . . . . . . | 237,500 | Collections . . . . | 479,722 |
| Deposits . . . . . . | 4,668,687 | Acceptances . . . | 233,253 |
| Loans . . . . . . | 1,244,504 | Bills bought . . . | 2,331,830 |

The dividends since 1916 had been 8 per cent.

In all, 55,000 new £10 shares (£4 paid) were issued, and of these Lloyds acquired 15,000 at £7 5*s*. and 15,000 others privately. But this was not sufficient.

Next year, in September 1920, fresh capitalization was announced for the Bank. In a new issue of 100,000 shares, the Westminster Bank, the National Provincial Bank and the Standard Bank of South Africa were to participate, each receiving one-third. Mr. Tennant, Deputy-Chairman of the Westminster Bank, and one director from each of the other two institutions, joined the Board of the West African Bank, which thereby became one of the few places where English bankers in day-to-day competition with one another, meet on common ground. There is no doubt that the sudden interest in this bank came from the expectation of new and profitable banking business to be had in the former German colonies. These expectations, however, were probably influenced to a large extent by the prevailing optimism of the post-war boom, and as a result, the additional capitalization for this bank was procured almost at the peak of the boom.

The following table demonstrates the results of this :[1]

| | 1917. | 1918. | 1919. | 1920. | 1921. | 1922. |
|---|---|---|---|---|---|---|
| *Liabilities.* | £ | £ | £ | £ | £ | £ |
| Capital . . . . . | 560,000 | 580,000 | 580,000 | 800,000 | 1,200,000 | 1,200,000 |
| Reserve . . . . . | 220,000 | 237,000 | 250,000 | 400,000 | 625,000 | 400,000 |
| Deposits, etc. . . . | 1,288,885 | 4,883,970 | 6,876,847 | 12,617,437 | 8,656,750 | 8,177,070 |
| *Assets.* | | | | | | |
| Cash . . . . . . | 1,142,775 | 1,127,144 | 1,667,564 | 2,951,334 | 2,532,167 | 2,602,942 |
| Investments . . . | 498,719 | 925,528 | 1,026,821 | 791,553 | 850,524 | 1,167,345 |
| Discounts . . . . | 1,264,186 | 2,331,830 | 2,219,802 | 4,940,678 | 3,202,316 | 3,279,947 |
| Loans . . . . . . | 1,109,570 | 1,244,504 | 2,706,768 | 5,003,206 | 3,693,686 | 2,401,132 |
| Dividend . . . . | 8% | 8% | 9% | 10% | 8% | 6% |

The increase in investments owing to the difficulty of employing the new money in the Bank's ordinary channels of business, is particularly noticeable.

[1] Extracted from the "Analysis of Accounts" in the *Bankers' Magazine* of October 1922.

In 1919 also, reports appeared of the acquisition by the Westminster Bank of 11,400 shares (nominal value $100 each, with double liability) in the Royal Bank of Canada. This is the foremost "international" Bank in Canada and the extent of its business in that direction may be judged from the following figures of the 1919 balance sheet:

| | $ | | $ |
|---|---|---|---|
| Capital paid up . . | 17,000,000 | Call loans elsewhere | 33,812,751 |
| Reserve . . . . | 17,000,000 | Other loans in Canada | 143,259,518 |
| Deposits . . . . | 419,121,399 | Ditto outside Canada | 90,210,271 |
| Call loans in Canada | 16,435,614 | | |

In the following year $3,000,000 of new capital was issued and in 1921 the Westminster Bank reduced its holding to 10,000 shares.

Comparable in many respects to the Bank of British West Africa is the case of the P. and O. Banking Corporation, floated in April 1920 by Lloyds Bank, the Westminster Bank, the National Provincial Bank and the P. and O. Steam Navigation Company, with a capital of £2,500,000 in £10 shares (issued at £10 2*s*. 6*d*.). 80,000 shares were taken up by the promoters mentioned above and 170,000 were offered for public subscription. The original directorate is interesting. It included:

Lord Inchcape, Chairman of the P. & O. S.N. Co.
Sir R. Vassar-Smith, Chairman of Lloyds Bank.
Sir Montagu Cornish Turner, Chairman of the Chartered Bank of India.
Sir Duncan Carmichael, Director of the P. & O. S.N. Co. and the Chartered Bank of India.
E. H. Cunard, Director of the Cunard S.S. Co. and the Westminster Bank.
Fredk. Eley, Director and General Manager of the National Provincial Bank.

"The Head-office of the Bank will be in London and it is intended gradually to open business at the ports where the P. and O. Company and its allies operate in the East, Australia and elsewhere. The close connection with the P. and O. will give the enterprise a standing which will no doubt secure a large amount of business from the start, while combined with the backing of the other banks, it will be in a position to provide the greatest facilities for the financing of overseas trade with Australia, India and China. . . . In no sense can the new

institution be regarded as cutting into existing connections but rather of welding them together still more closely." [1]

Apart from the general enthusiasm for new flotations in these times of the inflationist boom (against which even the Chancellor of the Exchequer thundered !), there is little doubt that the dividends of the existing Exchange banks were attracting attention again. Their high level and their steadiness certainly reveal considerable skill on the part of the banks, at a time when the rupee fluctuated from 1*s*. 4*d*. in January 1914 to 2*s*. 11½*d*. in February 1920 and back again to 1*s*. 3$\frac{3}{16}$*d*. in April 1922. The following is the actual dividend record :

Dividends per cent. per Annum of the following Exchange Banks.

| | 1914. | 1915. | 1916. | 1917. | 1918. | 1919. | 1920. | 1921. | 1922. | 1923. | 1924. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Mercantile Bank of India . . . . | 8 | 10 | 12 | 14 | 14 | 16 | 16 | 16 | 16 | 16 | 16 |
| Chartered Bank of India . . . . | 14 | 14 | 17 | 19 | 20¼ | 20¼ | 20¼ | 20¼ | 20¼ | 20¼ | 20¼ |
| National Bank of India | 16 | 16 | 16 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 |
| Eastern Bank [2] . . | 5 | 5 | 6 | 7 | 7½ | 9 | 9 | 9 | 9 | 9 | 9 |
| P. & O. Bank . . . | — | — | — | — | — | — | — | 5 (9 mos.) | 5½ | 5½ | 5½ |

A particularly interesting amalgamation was arranged after this flotation between the P. & O. Bank and the Allahabad Bank, an Indian joint-stock bank with a dozen branches and several sub-agencies in the interior of India,—a pioneer, with the Alliance Bank of Simla, of the amalgamation policy between Indian joint-stock banks. At the first Annual Meeting of the P. & O. Bank, Lord Inchcape, commenting upon this acquisition, said that "Our purchase of the Allahabad Bank . . . gives us a footing in the interior of India which it would have taken years to work up." The interest in this lies, of course, in the fact that, for the first time, an Exchange bank was to tackle the *internal* market, as well as accepting business at the ports of India, China and the

[1] *Bankers' Magazine*, March 1920.

[2] The Eastern Bank was founded in 1909 "for the purpose of transacting both exchange and local banking." It was identified with E. D. Sassoon & Co., the well-known merchants, the Société Générale, the Banque d'Outremer, the Banque de Paris et des Pays Bas, and the Banque Internationale de Bruxelles, and had on its original Board one director of the London Joint Stock Bank.

Straits, where the P. & O. Bank had by this time eight branches. The Allahabad Bank had a Capital and Reserve of Rs. 30,00,000 each, and Deposits of Rs. 9,36,13,800. Its dividend for the years 1907–19 had been 12 per cent., with 6 per cent. bonus, and this rate was unaffected by the amalgamation.

The anti-climax came with the acquisition of the P. & O. Bank itself by the Chartered Bank of India in 1927. The Chartered Bank eventually acquired 196,059 shares (of 259,416) at £10 10s. per share, the market value being £10⅛. Sir Montagu Cornish Turner said of this amalgamation [1] that

"we regain control of valuable business connections *which had rather passed away* when the P. & O. came into existence, such business covering India, Burmah, Ceylon, China and Japan, and we prevent the business getting into other hands. Further, we have a well-established business . . . ceasing to function as active opponents."

The new development is significant. It means that one of the greatest of the Exchange banks, is directly interested in developing banking facilities in the interior of India, which to all the Exchange banks is, in the main, unknown territory. Although English banks can never hope to serve the whole of India, a development of this kind cannot fail to have beneficial effects of vital importance in Indian economic development, if the other banks follow suit. The reason for this incursion is perhaps supplied in an earlier part of Sir M. Turner's speech:

"We have been unable to maintain the high level of profits to which we have grown accustomed in the past. It must also be recognized that the competition in Eastern Exchange banking grows wider and keener every year resulting in sharp competition for any passing business and in the acceptance of rates which show very meagre profits. Differences in exchange are now reckoned by sixty-fourths or even worse, as compared with the fair and reasonable differences which prevailed in happier days."

If competition is forcing the Exchange banks inland, then this is all for the ultimate good of the Indian banking system.

[1] Speech at Annual Meeting, March 1928, of the Chartered Bank of India.

At the same time, as regards the P. & O. Bank itself, it is tempting to inquire why the Chartered bank ever supported this institution, if it lost valuable business connections through it, particularly as the new concern was floated at the peak of the boom and in consequence was not strikingly successful.

COMPARATIVE POSITION OF THE TWO BANKS IN 1927.

| | P. & O. Banking Corporation. | Chartered Bank of India. |
|---|---|---|
| Capital | £2,594,160 | £3,000,000 |
| Reserve | 180,000 | 4,000,000 |
| Current and Deposit A/cs | 8,627,483 | 50,067,105 |
| Acceptances | 1,074,825 | 2,175,807 |
| Bills and Loans | 11,144,872 | 37,565,372 |
| Branches | 9 | 45 |
| Dividends | 5% p.a. for 3 years to 1926. | 20¼% p.a. for 9 years to 1926. |

In 1919 Barclays Bank had secured the "affiliation" (in deference to the susceptibilities of Lancashire business men) of the Union Bank of Manchester, and thus when a shareholding was obtained in the Anglo-Egyptian Bank in 1920, Mr. Goodenough, of Barclays, was able to explain that "the intimate relations into which we have entered with the Anglo-Egyptian Bank were rendered desirable by our important extensions in those districts in which the cotton trade was located."

Nine Barclay "B" shares of £1 each (market value about £22½) were exchanged for each £15 share (£5 paid) in the Anglo-Egyptian Bank,[1] and in this way Barclays managed to secure over 100,000 of the existing 120,000 shares. The announcement of the amalgamation was made on 24th February, 1920, and the consent of the Treasury Advisory Committee on Bank Amalgamations was (not very promptly) given on 13th April. The prospective (and actual) dividend on the "B" shares was lower, but there was no uncalled liability as in the case of the Anglo-Egyptian shares. The following extracts from the balance sheet of 31/8/1919 illustrate the condition of the Bank before amalgamation :

[1] These £15 shares "have been pushed up since the beginning of the year from 16½ to 23," *Economist*, 28th February, 1920.

| | £ | | £ |
|---|---|---|---|
| Capital . . . . . | 600,000 | Advances . . . . . | 3,021,736 |
| Reserve . . . . | 720,000 | Cash and Money at Call | 3,604,855 |
| Deposits . . . . . | 17,113,477 | Bills Receivable . . | 6,443,855 |
| | | Treasury Bills . . . | 4,000,000 |

The same remark applies to this as to the other overseas adventures of the English joint-stock banks at this time. The moment chosen was hardly opportune, and the history of the Anglo-Egyptian Bank after the amalgamation (summarized in the following table) illustrates this:

(Figures in 000's.)

| | 1919. | 1920. | 1921. | 1922. | 1923. | 1924. |
|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ |
| Deposits . . . . . | 17,123 | 15,542 | 11,841 | 10,653 | 10,640 | 11,867 |
| British Government Securities . . . | 1,791 | 1,163 | 817 | 3,459 | 3,055 | 2,714 |
| Advances . . . . . | 3,021 | 5,681 | 5,031 | 4,866 | 4,728 | 5,621 |
| Bills receivable . . | 10,443 | 8,460 | 5,694 | 1,985 | 2,736 | 3,966 |
| (The figures below are printed in full.) | | | | | | |
| Gross Profits . . . | 325,802 | 298,143 | 450,617 | 436,576 | 417,698 | 444,999 |
| Expenses . . . . | 182,822 | 264,737 | 331,734 | 316,877 | 324,007 | 336,787 |

The decline of business after 1920 is very marked and apparently very persistent. "Bills Receivable" for 1923 and 1924 includes £905,000 and £1,355,000 Treasury Bills respectively, bought presumably because of the shrinkage in banking business. The economy of amalgamation is not particularly well illustrated here either, as the Expenses to Gross Profit ratio remained unusually high.

Lloyds Bank now attracted attention again by their purchase in 1923 of the business of Cox and Company, private bankers established in the eighteenth century and famous as Army agents. Cox & Co. opened a branch in Bombay in 1905 for the purposes of their ordinary business, and by 1922 had altogether nine branches in India, Egypt and Burmah.[1] In that year the firm absorbed Henry S. King & Co., a small concern with a capital of £100,000 and branch firms in India, Egypt and at Marseilles. Cox & Co.'s Balance Sheet at the

[1] In 1915 this firm also founded a foreign auxiliary, in which other English and foreign institutions (and the National Bank of South Africa) took shares. This operated on the Continent and was finally bought by Barclays Bank, one of the shareholders.

end of 1922 showed a Capital of £600,000, Reserve of £650,000 and Deposits of £16,643,725, but details of the amalgamation arrangements with Lloyds Bank were not shown, because Cox & Co. was a private firm with no obligation to disclose its figures. "By this absorption," said Mr. Beaumont Pease in 1924,

"Lloyds Bank for the first time in its history, becomes directly interested in places outside Great Britain. . . . There are prospects of interesting profit and of opportunities for giving unusual facilities for those interested in trade between England and these countries which I hope may be realized."

A special Eastern Department under Sir Seymour King (formerly head of Henry S. King & Co.) was set up to supervise Cox's business. As Army agents, Cox & Co. were bound to suffer a serious diminution in business at the end of the War, and it was no doubt in the acquisition of fresh capital and the undertaking of the orthodox business of an Exchange bank, that their salvation lay. It is curious, however, to reflect that this is being facilitated by Lloyds, so that, for the first time, an English deposit bank is opening its own branches abroad, in order to pursue a business which was characterized by witnesses before the 1875 Committee as "not banking at all." As a result of this new departure an awkward position arose in Egypt, where the Bank of British West Africa (in which Lloyds was a shareholder) came into direct competition with the Egyptian part of Cox & Co.'s business. Ultimately it was decided that the Bank of British West Africa should close their two branches and terminate their business in Egypt, transferring it as far as possible to Lloyds Bank. They retained a substantial interest in the results of the amalgamated Egyptian business. But subsequently the Egyptian business was so unprofitable or Lloyds were so dissatisfied with the prospects there, that the English bank itself withdrew and disposed of its interests to the National Bank of Egypt.

Shortly after the Lloyds and Cox amalgamation came the announcement that Grindlay & Co., a small firm of Army agents, established in 1828 and with branches in 1923 at Bombay, Calcutta and Simla, was to be registered as a

limited company, all shares being held by the National Provincial Bank. In this case, the character of the original institution was not to be changed. According to the National Provincial Chairman, "it is not the intention of Grindlays in any way to embark on Indian commercial business, but it is hoped to maintain and develop the existing business of private bankers and Army agents."

The latest and most striking Empire Bank amalgamation, is that undertaken by Barclays Bank in the formation of Barclays Bank (Dominion, Colonial and Overseas). For many years, Mr. Goodenough, the Chairman, seems to have been a confirmed Imperialist. His 1918 speech, for instance, suggested that "the extension of banking organization and the maintenance of fixed rates of exchange within the British Empire will give to our Dominions and Colonies a substantial preference and would serve to consolidate and promote trade within the Empire." Again, speaking in 1925 on Empire development, he said

> "there can be no question that the financial, industrial and commercial ties which now exist, can be greatly strengthened and developed by better organization. . . . As the main and most effective method, it is certain that cheap inter-Empire finance and good organization will have a greater effect even than actual tariff preferences."

The announcement of the Barclay scheme did not appear until August 1925, but there were indications before then of what was in the air. At an Extraordinary General Meeting of the Colonial Bank held in April, for instance, it was resolved to introduce a Bill into Parliament, reorganizing the Bank's capital and extending its powers, and to the obvious question as to the reasons for this, the Chairman made the following cryptic reference:

> "The answer to this question is rather an Imperial than a banking one, though perhaps it would be more correct to say that it is an Empire Banking one. . . . We have felt that with its long history, its great experience of overseas banking and its high prestige, the Colonial Bank might well be the foundation on which a much larger and more comprehensive institution might be built which would be of the greatest possible help in this Empire development."

It is, perhaps, only an accident that the "more comprehensive institution" was English and not Canadian. Since the lower tariff arrangements with the West Indies, the Canadian banks had become increasingly interested in the Islands and their entry into the field broke the Colonial Bank's almost complete monopoly there. In November 1911, an amalgamation was actually projected between the Colonial Bank and the Royal Bank of Canada, but differences of opinion, however, arose, which it was found impossible to reconcile, with the result that, by mutual consent, negotiations were discontinued. Rumours were constantly linking the name of this English bank with some Canadian institution, and in January 1920, the Bank of Montreal acquired a substantial interest in the Bank (which it still holds). Meantime, however, Barclays seem to have acquired an interest about 1919 after the West African business of the Bank was started, and Sir H. Hambling, of Barclays Bank, had been appointed to the Colonial Bank Board. The working agreement between the banks dates from January 1918.

Barclays had, therefore, a ready weapon to their hands, in the Colonial Bank, which was indeed fitted by its long and interesting history for a prominent position in the new development. But in addition, the Anglo-Egyptian Bank and the National Bank of South Africa were to form part of the new organization. Barclays shareholding in the first made this easy, but the second requires some explanation.

The National Bank, one of the two great banks of the Union, had built up its commanding position largely by means of amalgamations, but considered from the standpoint of dividends, it had not been an outstanding success. Further, it had been badly hit by the post-war depression, and especially by the failure of a particularly important New York firm in 1921, with liabilities of two millions sterling. As a result the Bank's reserve was wiped out and its shares written down from £10 to £7, and the 1923 Report mentioned that "the directors with the knowledge and approval of the Union Government submitted the Bank's accounts to the Governor of the South African Reserve Bank." The Reserve

Bank agreed to extend to the National Bank all the necessary support and the Union Government, of course, stood solidly behind the Reserve Bank. These unfortunate experiences are important because it seems likely that had Barclays attempted to secure control of the National Bank when it was successful, there might have been considerably more opposition, especially as the National Bank was a South African institution as distinct from the Standard Bank with its Head-office in London. As it was, both the South African commercial banks gained something by this amalgamation. The National obtained needful support and the Standard Bank has certainly gained from the fact that its troublesome weaker competitor (which often had to be *helped*, as its failure would have had serious consequences for the whole community) was taken off its hands and the former English supporters of this competitor (the Midland Bank) now naturally directed their South African business through the Standard Bank, which also must receive much more of such business from the other English competitors of Barclays. Lastly, South Africa herself gains from the increase of what is presumed to be effective competition.

The chief provisions of the Barclay scheme were as follow :

(*a*) The Colonial Bank was to be reincorporated by Private Act (15 & 16 Geo. V, c. 106) and change its name to Barclays Bank (Dominion, Colonial and Overseas). The Chairman and Deputy Chairman of Barclays Bank were to hold the same offices with the new bank and the existing Boards of the three merging institutions were to act as Local Boards of the new bank. Some of the local directors joined the Central Board, the members of which (according to the Articles) must all be British subjects. The Bank was "to establish carry on continue extend and develop the business of a banker in any part of the world in which it may for the time being be lawful for a British subject to carry on such business."

(*b*) The authorized capital of the Bank is £10 millions (a further 5 millions may be issued under the Act). £6,975,500 of this was issued and £4,975,500 paid up, represented by the following shares :

1,793,000 8 per cent. Cumulative Preference shares of £1 each.

2,682,500 " A " Ordinary shares of £1 each.

500,000 " B " Ordinary shares of £5 each.

All are fully paid except the " B " shares, which are £1 paid.

(c) Barclays Bank subscribed for all the " B " shares because they confer majority voting rights, giving five votes per share. (The uncalled liability on these of £2 millions, is noticeable.) The £500,000 thus subscribed by Barclays was used to strengthen internal reserves and to start the new concern with a total Reserve of £1,000,000. National Bank shareholders with their 296,500 £7 shares, received 2 Cumulative Preference shares and 5 " A " shares (10 of which were required for 1 vote) for each National Bank share. The 120,000 shares (of which Barclays held 113,016) of the Anglo-Egyptian Bank were for £15 each, £5 paid, and each of these was exchanged for 5 Cumulative Preference shares in the new company and $7\frac{1}{2}$ " A " shares.

" A " shareholders of the old Colonial Bank, holding 100,000 shares of £20 each, £6 paid, received 6 Cumulative Preference shares for each of their old shares. " B " shareholders of the Colonial Bank received 6 " A " shares in the new company in respect of the 50,000 old £20 shares (£6 paid) which they held.

The Company has since paid three dividends and the effect of these on the fortunes of the various shareholders in the old concerns, is summarized below.

Dividends.

| | For previous 3 Years. | 1926. | 1927. | 1928. |
|---|---|---|---|---|
| | Per cent. | Per cent. | Per cent. | Per cent. |
| Anglo-Egyptian Bank shareholders | 15 | $12\frac{1}{2}$ (15 mos.) | $13\frac{1}{4}$ | 14 |
| Colonial Bank shareholders . . | A 8 | 8 | 8 | 8 |
| | B 8 | 3 (15 mos.) | $3\frac{1}{2}$ | 4 |
| National Bank of South Africa shareholders | Nil | $4\frac{3}{7}$ (18 mos.) | $4\frac{11}{14}$ | $5\frac{1}{4}$ |

It is, of course, too early to criticize these results to any

purpose. The economy of administration, the improved organization, and the beneficial results to be obtained by interchange of the higher members of the staffs, cannot be expected fully to mature in four years. In addition, the Bank has been burdened with the initial confusion and the (non-recurring) expenses of a very large amalgamation.

The scheme was, on the whole, well received in London, where it caught the imagination (ever ill-repressed) of the City. This " bold and inspiring conception " (*Financial Times*), this " real romance of Empire " (*Financial News*) aroused, as might be expected, a good deal of enthusiasm in the Press. Mr. Goodenough adequately described the complementary trading relations (exporting food and importing manufactures) which existed between the United Kingdom and the territories served by the new bank ; 50 per cent. of the aggregate external trade of these regions was conducted with Great Britain. The solution of the problem of managing such a vast organization was thought to rest in the creation of Local Boards, of the value of which Barclays have had ample experience since 1896.[1] The territories are widely spread and subject therefore to different risks, while the busy seasons do not coincide, thus providing opportunities for the utilization of a small amount of floating capital in different regions at different times of the year. The fluctuations in prosperity in these territories were due largely either to climatic influences or to sudden variations in the prices of staple commodities, and the risk of loss from these causes would thus be smaller over a very wide area. The scheme, in short, is a " practical measure which will promote the industrial and commercial interests of the Empire and will help both its internal and external trade. . . . It is without doubt that in the development of trade of this kind lies the solution of many of our industrial problems." After the first flush of enthusiasm later comment was not so favourable. " This fusion," wrote one critic,

[1] And the maintenance of close personal relations between the Head-office and the countries where the Bank operates. Three members of the London Board visited South Africa in 1926 and the General Manager has also personally surveyed the territories of the old Anglo-Egyptian Bank.

"has been the subject of much criticism, largely on the ground that the problem of effective management was well-nigh insoluble. Here are three banks, having little in common, working in countries which have nothing in common, and controlled by a parent which has no common interest with any of them." It remains to be seen "whether it is possible to amalgamate different things and make of them a homogeneous whole." [1] The Board is very imposing. It includes Earl Buxton, late High Commissioner and Governor-General of South Africa, G. C. Cassels (Bank of Montreal—London Manager), Sir W. E. Nicholls (British South Africa Company), Lord Lugard, E. Pusch (Lazard Brothers), Sir H. E. Snagge (Ed. Boustead & Co.), F. C. Wood (Goschens & Cunliffe) and directors of the parent Bank and its affiliations.

In South Africa, where the amalgamation was most of a surprise (Barclays having been previously interested in two other banks), the reception was, on the whole, distinctly favourable. The Chairman of the National Bank thought "it is indeed as surprising as it is gratifying that so little adverse comment should have been offered upon the project that affects so intimately every section of the community in this country." The amalgamation resolutions were carried with only one dissentient, Mr. I. Hay, M.L.A., who, introducing himself as representing a large body of absent shareholders, said "there was no doubt whatever that there was a strong feeling of regret in regard to the proposals of the Board. There had been a feeling of pride in the name of the National Bank, which was not only the name of an institution but which was regarded as embodying a national institution. . . . It was a surrender of independence to some extent and . . . a loss of prestige for the Bank itself." But it is questionable whether the Bank could have carried on a successful business without external aid of some sort. The Governor of the South African Reserve Bank "could not help feeling that whatever were the sentimental reasons against it, from the point of view of strong and sound banking in South Africa, there was a great deal to commend the

[1] *Banker*, March 1926.

proposal." And this seems to express the South African attitude well. It is notable, too, that as a sop to national feeling, the name of the National Bank was retained on all branches, cheques and documents in South Africa.

In general, it appears that South African vanity seems to have been decidedly tickled at the compliment which was being paid the Dominion by this sudden interest of Barclays. The situation had its attractive side for the London bank, of course, especially with the gold standard re-established, with new industries (platinum and citrus fruits) just started and an important railway construction programme in hand. At any rate, by the inclusion on the new Board of the late Chairman of the National Bank and the late High Commissioner and Governor-General of South Africa, Barclays showed themselves anxious to placate South African opinion, and the enthusiasm of the South African Press seems very real and unanimous. This does not remove the impression that if the National Bank had been in a really strong position, Barclays would have met with considerable opposition to their project. The weakness of the National Bank seems to have been a very important factor indeed in the apparently easy acquiescence of the Dominion in the amalgamation.

> "Running all through the inquiries and debates which centred on the problem of the return to the gold standard last year was a strong thread of suspicion that the weak position of the National Bank and the very strong position of the Standard Bank scarcely made for that wholesome competition in commercial banking which the interests of the country demand . . . there can be little doubt that with the infusion of new capital and the strengthening of the resources of the National, there is far more likely to be a greater degree of healthy competition than heretofore." [1]

This hardly seems the same spirit as that in which the Barclay project was conceived. Lastly, the problems which this amalgamation will inevitably raise for the South African Reserve Bank to solve, will be of an altogether unprecedented importance, and these do not seem to have received much attention. "The recent amalgamation," writes a

[1] *Cape Times*, 15/8/1925.

local observer, "makes it more than ever imperative that the Reserve Bank should pursue a more active and more forceful policy; otherwise it seems improbable that it will be able effectively to control currency and credit."[1] It is difficult to believe that it will ever be able to do so, while the present intimate connection of the banking system with London lasts.

This, however, does not exhaust the list of Barclays' ramifications. In December 1928 it was reported that a new bank under the control of Barclays would be formed in Canada under Canadian banking law for the accommodation of the West Indian interests of the old Colonial Bank. A subsidiary company, "Barclay (Canada) Ltd.," had been formed, but was unable to undertake banking business without conforming to the usual regulations laid down in the Bank Act for the incorporation of chartered banks in Canada. The new bank is, therefore, to be chartered with an authorized and paid-up capital of $500,000 (the minimum figure under the Act) and a reserve fund of the same amount, the majority of the capital being subscribed by Barclays and the Overseas subsidiary. Sir Robert Borden, Director of the Bank of Nova Scotia and late Canadian Premier, is mentioned as the President of the new bank. The position of 1911, at the time of the projected amalgamation between the Colonial Bank and the Royal Bank of Canada, is thus reversed. It is possible that this new move may be in part caused by a desire to obtain cheaper terms for Canadian business, as the collection, draft and credit charges of the Canadian banks are usually regarded as rather high; at any rate, when the business opens,[2] Barclays will certainly be in a unique position as the only English bank directly represented in Canada.

In view of these developments the policy of the British Government in regard to amalgamations between the English

[1] C. S. Richards in *Economic Journal*, December 1925.

[2] In September 1929. The charter has now been obtained and the Bank will commence business with the blessing of the Canadian public and the banks (perhaps because the persistent buying of Canadian bank shares on *American* account in the last few years is not viewed with much enthusiasm in Canada).

joint-stock banks and the Imperial banks, is of some moment. This has been recently and clearly laid down by Mr. Churchill. On 24th November, 1927, Commander Bellairs asked the Chancellor of the Exchequer whether he was aware that when the agreement for the amalgamation of the National Bank of India with one of the great London banks was ready for submission to the shareholders in 1917, the Treasury intervened and vetoed the transaction; and whether it was still the considered policy of the Treasury to oppose amalgamations between banks in Great Britain and banks in the Empire. The answer referred "my hon. and gallant friend to the reply I gave on the 7th July, 1925 . . ." For reasons which he will appreciate, I am not at liberty to make any statement as regards specific applications . . . The statement of 1925, according to Mr. Churchill, does not apply to banking amalgamations in the Mother Country only, but is general in its effect. It reads: "Whilst I cannot forecast the recommendation of the Committee in cases not before them, I share the view expressed by my predecessor, . . . that further amalgamations with the larger banks would not in principle be regarded with favour by His Majesty's Government."

The present tendency of amalgamation between the Imperial banks and the English joint-stock banks, brings clearly into view the fact that the banking systems of the Empire are highly integrated and intimately connected with London. Not only the Imperial banks but all the banks of the Empire are drawn unmistakably to London, and indeed some of the latter have attained a commanding position in the City. The Bank of England, for instance, will readily discount the acceptances of the Bank of New Zealand, the Bank of Montreal, the Bank of New South Wales or the National Bank of Australasia, although these are not English banks. Much of the capital of these institutions was raised and is owned in the United Kingdom, and all the important Dominion banks have London share registers, and are connected with London banks by the nomination of English directors to their London "Boards of Advice." Further, the Imperial banks, as well as the local banks of the Empire,

are connected through inter-locking directorates to each of the great London banks, and a few of them to the Bank of England.

The following list (extracted from the *Bankers' Almanac*, 1928–29) gives an idea of the extent of these relations :

| *Name.* | *Directorates.* |
|---|---|
| Sir C. Addis | Bank of England, Hongkong Bank. |
| C. Baring | Baring Bros., Hongkong Bank. |
| C. E. Barnett | Bank of Australasia, Lloyds Bank. |
| G. E. B. Bromley-Martin | Martins Bank, Eastern Bank. |
| W. S. M. Burns | Bank of New South Wales, Midland Bank. |
| C. A. Campbell | Hongkong Bank, Westminster Bank. |
| C. F. Campbell | Chartered Bank of India, Coutts & Co., National Provincial Bank. |
| Lord Carnock | Bank of New Zealand, Midland Bank. |
| S. Christopherson | Midland Bank, Standard Bank of South Africa. |
| R. E. Dickinson | Bank of British West Africa, Westminster Bank, Standard Bank of South Africa. |
| Sir Fred. Eley | Bank of British West Africa, P. & O. Bank. |
| Sir Harry Goschen | National Provincial Bank, Chartered Bank of India. |
| K. Goschen | Bank of Australasia, Bank of England. |
| C. J. Hambro | Hambros Bank, Mercantile Bank of India. |
| C. G. Hamilton | Coutts & Co., National Provincial Bank, Bank of Australasia. |
| Sir Austin E. Harris | Bank of British West Africa, Lloyds Bank, National Bank of New Zealand. |
| Lord Hillingdon | Glyns, Union Bank of Australia. |
| Sir M. N. F. Hogg | Westminster Bank, Union Bank of Australia. |
| Lord Inchcape | National Provincial Bank, P. & O. Bank. |
| Lord Inverforth | Lloyds Bank, National Bank of Australasia. |
| F. A. Johnston | National Provincial Bank, P. & O. Bank. |
| Brig.-Gen. Maxwell | Glyns, Union Bank of Australia. |
| H. Peel | Bank of Australasia Standard Bank of South Africa. |

| *Name.* | *Directorates.* |
| --- | --- |
| Lord Selbourne . . . | Bank of British West Africa, Lloyds Bank, P. & O. Bank, Standard Bank of South Africa. |
| Hon. A. Shaw . . . | Bank of England, P. & O. Bank. |
| L. E. Smith . . . | National Provincial Bank, National Bank of New Zealand. |
| H. P. Sturgis . . . | Union Bank of Australia, Westminster Bank. |
| R. H. Tennant. . . | Bank of British West Africa, Westminster Bank. |
| H. L. M. Tritton . . | Barclays Bank, Bank of New South Wales. |
| J. Tuke . . . . . | Australian Bank of Commerce, Barclays Bank. |
| Sir M. C. Turner . . | Chartered Bank of India, P. & O. Bank, Westminster Bank. |
| S. M. Ward. . . . | Baring Bros., English, Scottish and Australian Bank. |
| A. Whitworth . . . | Bank of England, Bank of Australasia. |
| Sir D. Yule. . . . | Mercantile Bank of India, Midland Bank. |

Again, the Imperial Banks and those of the Dominion Banks which have London offices, are brought together in the British Overseas Banks Association, established in 1917 to provide for common action on the part of the overseas banks in regard to the financial problems of the war period.[1] This body sends five representatives to the British Bankers Association.

One of the most important factors of this " concentration " of Empire banking in London is simply explained ; it is a common dependence on the London Money Market. Some aspects of this are worth examination, with a view to a just appraisement of the economic soundness and permanence of the " concentration " movement.

The interest of the Imperial banks is plain—the justification for their foundation and continued existence is that the trade of Great Britain with the rest of the Empire is relatively large.[2] The most important business of their

[1] See the authoritative article in the *Financial Times*, 15/3/1926. Seven-eighths of the members operate within the British Empire.

[2] See Appendix I. It is perhaps worth noting that so long as the Dominions and Colonies continue to succumb to the inducements of the

London offices, therefore, consists largely of opening credits, and buying and selling bills covering shipments of manufactured goods to the Dominions and Colonies and raw materials to the Mother Country. It is the bill-holdings of these banks which form the raw material of the London bill market. Moreover, the Imperial banks (and all the local banks of the Empire as well) are glad to come to London and invest their floating funds, because they find no comparable facilities anywhere else within their sphere of operations. If they were debarred from this, the cost of banking services would have to be raised in order to cover the increased expense of holding further sterile gold reserves ; as it is, short money in London is nearly as good. Obviously, a fairly large liquid balance in London is at all times desirable, to meet the exchange drawings of the overseas offices and to cover the purchase of overseas trade bills, but normally the balances actually kept are larger than this need indicates. Some important questions arise in connection with these balances.

In the first place, the banks (both the Imperial banks and the local institutions) are often charged with keeping too large a proportion of their resources in London and starving the local area of much-needed funds. The English banks with firm connections in London, are naturally susceptible to criticisms of this sort, but, to some extent, it is true that all London balances have at times been excessive, even if allowance be made for reserve allocations. The reason is not far to seek. South African and Australian banks, for purposes of exchange (and other) business, form "rings" [1] for

Colonial Stock Acts (nearly £800 millions borrowed thereunder are at present outstanding), it seems likely that there will always be large annual interest payments to make which will tend to perpetuate close trading relations.

[1] Perhaps the reason is that all the Dominions are over-banked, and that excessive competition would be dangerous.

Population per Bank Branch or Agency

(based on official census figures or population estimates).

| | South Africa. | Canada. | New Zealand. | Australia. |
|---|---|---|---|---|
| 1925 . . . | 2,628 | 2,294 | 3,005 | 2,309 |
| 1926 . . . | 2,654 | 2,444 | 2,848 | 2,288 |
| 1927 . . . | 2,700 | 2,525 | 2,851 | (no population estimate) |

A figure of 4,689 for England and Wales in 1923 leads Sykes to suggest that the "safety and quality of banking are affected" (*Amalgamation*

the fixing of exchange rates, for months and sometimes a year at a time. This is not quite such an unmixed blessing as it appears, as the margins between buying and selling rates have been sometimes large enough to call forth complaints that the banks were making excessive profits out of this curious arrangement.[1] The margin, however, is always likely to remain larger than under perfectly free conditions, for two reasons—first, the arrangement *entails "piling up" balances in London* at certain seasons of the year, and second, the banks must charge the equivalent of an insurance premium to cover themselves against the risk of exchange loss when the balances are in due course brought back. The banks move rates very slowly and reluctantly in any case, and they can even reduce seasonal fluctuations to an absolute minimum,—all by the simple expedient of neglecting to balance their accounts of exchange bought and sold. Then, for some part of the year, e.g. when Australian wool is being moved, their sterling position will be "over-bought" and their London balances will begin to accumulate. Normally these balances will be reduced by the subsequent purchase of sterling on account of Australian importers, but this is a slower process, not so subject to seasonal variation, and the cycle takes one year to complete. At the end of this time, the exchange account balances, and funds in London should be at a minimum level again. While this system continues to operate, it binds the banks to London, since its economical working depends to a large extent upon the facility which the banks enjoy of employing balances in London at remunerative rates, while the funds are waiting to be drained back to the Dominion centre. Sometimes, of course, the banks

*Movement in English Banking*, p. 146). Home banks, of course, serve a highly concentrated area, but one much more commercially developed, Cf. Professor Kemmerer's opinion of South Africa, in *Kemmerer-Vissering Report*, Minutes of Evidence, *Q.* 3279. "If this country is over-banked . . . the obvious answer is that some of the banks will have to be either closed or they will have to curtail their operations and withdraw their capital."

[1] Part of the banks' defence was that "the nominal rates quoted were in practice materially reduced by concessions customarily made" (statement to Committee on Inter-Imperial Exchanges; *Imperial Economic Conference Report*, Cmd. 2009, 1924). The banks certainly used to allow the gold-mining industry in South Africa a preferential exchange rate to the extent of ¼ per cent. to keep the mining interests out of the market.

miscalculate, and pile up excessive funds in London or run too short. This sort of miscalculation occurred after the War, when the additional factor of disconnected price-levels was disregarded and when London remittances reached a premium of 2½ per cent. in Australia in 1920, and merchants were "rationed." Next year the exchange absolutely broke down. In 1920, also, fluctuations in the purchasing power of sterling led ultimately to a premium of 8 per cent. on the South African pound, and a fall directly afterwards of the same currency to a discount of 5 per cent. Rates here followed economic tendencies more quickly and there was no deadlock; but the constant availability of exchange under this system clearly depends on the immediate response of the banks to sudden alterations in relative price-levels, otherwise they find themselves in the position of trading in exchange at rates which differ from the "natural" levels, with the result that their London balances either become excessive or melt away. Their failure to abandon the "fixed" rates quickly enough, in abnormal circumstances, naturally led to the suggestion that the exchange rings should be broken up,[1] and there are some signs that the banks themselves wish it,[2] but while the rings last and continue to "fix" rates, the Empire banks and the Dominion banks will always be deeply interested in the London Money Market. The resumption of the Gold Standard within the Empire of course removes the uncertain factor which threw the arrangement into confusion after the War, and its continuance, if it is as beneficial as is claimed, will be at least practicable, so that the banks are still likely to employ large balances in London at different seasons of the year.

As the size of London balances, in normal circumstances, is a determining factor in exchange movements, it is regrettable that the figures are not stated publicly. Most of the

[1] E.g., letter of Mr. J. A. Cooper, Deputy-Chairman, British Australian Wool Realization Association, to *Economist*, 18/10/1923. He suggests that the Commonwealth Bank and the Bank of New Zealand should allow perfect freedom for exchange operations in any part of Australasia for any customer who likes to open an account with them.

[2] In September 1928, the Australian banks announced that they were prepared to open current accounts in Australia for their banking correspondents in other countries.

banks do not even publish yearly figures. Some idea of the amount in a representative case, however, may be gathered from the *Kemmerer-Vissering Report*, which published the following statement (Union Reports of Select Committees, Vol. III, 1925, App. XIX):

MONTHLY AVERAGE LONDON BALANCES OF TWO SOUTH AFRICAN BANKS.

(000's omitted).

(Figures furnished by the banks; they presumably include Cash and Balances with other English banks.)

| 1923. | Standard Bank. £ | National Bank. £ | 1924. | Standard Bank. £ | National Bank. £ |
|---|---|---|---|---|---|
| J. | 6,353 | 6,228 | J. | 7,834 | 8,005 |
| F. | 5,228 | 7,722 | F. | 8,084 | 9,094 |
| M. | 5,866 | 6,813 | M. | 8,539 | 8,055 |
| A. | 5,564 | 6,594 | A. | 7,928 | 8,241 |
| M. | 5,344 | 5,701 | M. | 8,211 | 6,366 |
| J. | 4,815 | 4,915 | J. | 7,875 | 6,125 |
| Jy. | 4,930 | 5,637 | Jy. | 7,089 | 6,115 |
| A. | 4,730 | 5,836 | A. | 6,711 | 6,087 |
| S. | 4,597 | 6,180 | S. | 5,905 | 5,702 |
| O. | 4,585 | 5,588 | O. | 5,587 | 5,363 |
| N. | 5,096 | 5,874 | N. | 5,904 | 5,459 |
| D. | 6,608 | 6,517 | | | |

Evidence before the Commission showed that £2 millions was sufficient for normal exchange business, and the actual figures seem, therefore, large; but "you can scrap the idea of our having made a profit on the London balances. That never entered the heads of the banks," according to the South African Manager of the Standard Bank.[1] Most of the surplus is English deposits, and the net amount of "exchange" balances does not definitely appear; some also has to be left in London for the banks' American business, as there is no direct Cape Town-New York rate. (This, if anything, adds to the usefulness of a London connection, but there would, of course, be direct rates under conditions of free competition.)

A further integrating factor in Imperial banking is the practice of taking English deposits. This again concentrates the banks of the Empire in London. The following table gives the position very roughly,[2] as regards external deposits in general, collected by the trading banks:

[1] *Kemmerer-Vissering Report*, Minutes of Evidence, *Q.* 2288.

[2] No authentic figures are published, except for Canada and India, where the figures given (Indian *Banking Blue Book*, 1928) obviously relate to

INTERNAL AND EXTERNAL DEPOSITS OF THE BANKS OF THE EMPIRE.
(000's omitted.)

| | 1923. | 1924. | 1925. | 1926. | 1927. |
|---|---|---|---|---|---|
| *Australasia* | £ | £ | £ | £ | £ |
| Internal . . | 322,296 | 318,272 | 332,279 | 343,145 | 343,683 |
| External . . | 22,371 | 31,708 | 25,484 | 26,459 | 29,179 |
| *South Africa* | | | | | |
| Standard Bank | | | | | |
| Internal . . | 33,606 | 33,488 | 31,977 | 32,744 | 30,246 |
| External . . | 15,340 | 15,030 | 16,054 | 16,672 | 17,383 |
| | | | | (Barclay amalgamation, 1925. | |
| National Bank | | | | | |
| Internal . . | 28,533 | 24,186 | 23,913 | Aggregate figure of deposits useless.) | |
| External . . | 11,218 | 9,781 | 7,601 | | |
| *Canada* | | | | | |
| Internal ($) . | 1,720,447 | 1,709,464 | 1,800,722 | 1,893,881 | 1,995,131 |
| External ($) . | 302,265 | 332,533 | 362,103 | 330,399 | 349,008 |
| Net Balances with U.K. Banks ($) . | 2,055 | 2,061 | 1,145 | 5,086 | 3,077 |
| *India* | | | | | |
| Internal (Rs.) | 51,29,78 | 48,93,45 | 50,57,43 | 51,07,24 | — |
| External (£) . | 62,386 | 65,786 | 75,605 | 73,533 | — |

Not all the External Deposits of the banks in the table are drawn from Great Britain of course; most are in the case of India and South Africa, and nearly all in the case of Australasia, where the banks have no connections outside London and the two Dominions. Again, some of the "Deposits" will consist of "exchange" money, that is, proceeds of trade bills sold in London. Allowing for this, there still seems ample reason for believing that access to London for the purpose of attracting English deposits is valuable enough to account in part for the success and present firm position of the Imperial banks, and for the attraction which a London office will always present to banks directed from other parts of the Empire.

There are thus various factors at work concentrating the banking business of the Empire in London and making it

the Chartered Bank, the Eastern Bank, the Mercantile Bank, the National Bank and the P. & O. Bank—all English institutions with Head-offices in London. The remaining figures are obtained by subtracting the total of "Deposits" in the periodical official returns from Balance Sheet "Deposits" at approximately the same date. Balance Sheets occasionally mix "Reserves" with "Deposits," but the error thus caused would not amount to more than 5 per cent.

necessary for banks of any importance in the Colonies and Dominions to have at least an office in London if not to be capitalized and directed therefrom. This concentration of banking power is all the more complete because very few foreign banks supported from foreign monetary centres, have any offices within the Empire except in London. This is illustrated by the following table:

Constitution of Empire Banking Systems (1928)
(from Dominion and Indian Official Returns and "Bankers' Almanac," 1928–9).

| | Number. | Paid-up Capital. | Internal Deposits. | Offices. |
|---|---|---|---|---|
| | | £ | £ | |
| *Australia* | | | | |
| Australian Banks . | 8 | 26,803,826 | 266,927,562 | 1,910 |
| Banks of other Dominions . . . | 1 | 6,771,198 | 675,309 | 2 |
| English Banks . . | 3 | 11,000,000 | 82,746,568 | 755 |
| Foreign Banks . . | 2 | 20,000,000 | 166,867 | 3 |
| *New Zealand* | | | | |
| New Zealand Banks. | 1 | 6,771,198 | 24,162,979 | 222 |
| Banks of other Dominions . . . | 2 | 10,799,050 | 6,731,157 | 95 |
| English Banks . . | 3 | 9,500,000 | 16,408,861 | 185 |
| Foreign Banks . . | — | — | — | — |
| *South Africa* | | | | |
| South African Banks | 3 | 1,025,790 | 9,542,924 | 12 |
| Banks of other Dominions . . . | — | — | — | — |
| English Banks . . | 2 | 7,204,665 | 57,855,007 | 510 |
| Foreign Banks . . | 1 | 468,542 | 1,304,841 | 16 |
| *India* (1926) | | | | |
| Imperial Bank of India . . . . | 1 | Rs. 5,62,50,000 | Rs. 80,35,06,000 | 166 |
| Indian Banks . . | 119 | 7,44,79,000[1] | 63,07,53,000 | 484 |
| English Banks operating mostly in India | 5 | £9,644,000 | 51,07,24,000 | 53 |
| Other English Banks | 4 | £36,572,000 | 20,46,98,000 | 15 |
| Foreign Banks . . | 9 | £31,197,000 | — | 9 |

Canada has at present none but native banks; West Africa has Barclays and the Bank of British West Africa; East Africa has the South African banks and the National Bank of India, and the West Indies have only the Canadian banks and Barclays.

[1] The figures for Capital and Deposits include only the more important of the 119.

The absence of a firm connection with any important foreign centre, the fact that much of the banking business of the Empire is in the hands of English banks, and the necessity for local banks of intimate relations with the London Money Market, have occasionally brought forth suggestions that exchange rates between Great Britain and the Dominions and Colonies might easily be so controlled from London as to eliminate all fluctuations and build up a "par exchange" system within the Empire as within Great Britain.[1] The project in its modern form was first mooted (very appropriately) by Mr. Goodenough, Chairman of Barclays Bank, in his Annual Speech in 1918.

"Just as in the past there were questions of exchange between London and the various cities of the kingdom which by the expansion of our banking organization were swept away to the greater advantage of trade within the kingdom . . . so should we now recognize that the extension of banking organization and the maintenance of fixed rates of exchange within the British Empire will give to our Dominions and Colonies a substantial preference and would serve to consolidate and promote trade within the Empire."

This was supported by Professor Foxwell. "Mr. Goodenough is really only asking us to go a little further on well-proved lines. He proposes to extend to the whole Empire the service of free remittance which the later development of our banking system has made so perfect within the United Kingdom."[2] The recent amalgamations, giving English joint-stock banks control over institutions operating in all parts of the Empire, seem to have made this more practicable. Fixed exchange would certainly strengthen and greatly facilitate trading relationships within the Empire and it would probably have the further not so obvious but none the less important effect of stimulating the movement of floating capital to and from the home country. Bank funds would become much more

[1] The idea of fixed exchange within the Empire, according to Chalmers, dates back to the proposal of Sir Alexander Cuming in 1748, but "his proposal was considered as visionary by the administration" (*Colonial Currency*, p. 17). The same principle, of circulating current British specie in the Colonies at par, was utilized in the Treasury scheme of 1825.

[2] *Papers on Current Finance*, Appendix II.

fluid, and money rates within the Dominions and Colonies would show a much greater degree of correspondence with London levels than they do now. As it is, London banks financing the movement of Empire crops have to charge much more for this service than they would at home because the risk of exchange movements before the funds lent are recovered, has to be taken into account. An adverse movement in the rupee exchange of 1/16*d.*, for instance, or in the Canadian dollar rate of 5 cents, is equivalent to a loss of interest of approximately 4 per cent. over the normal crop-moving period of three months, so that in times of fluctuating exchange, the Imperial banks dare not borrow London funds for use in the Empire, unless the local money rates are high enough to cover them against possible exchange movements. In normal times, the position is not quite so serious as this because the Empire exchanges are not subject to very sudden fluctuations, and in the case of Australasia and South Africa, the risk of movement is so small that the banks can comfortably shoulder it themselves. A scheme of par exchange applied to the whole Empire, however, undoubtedly has attractions. Wheat and other great staple crops are being reaped practically every month in the year in some Dominion or Colony, and if the risk of exchange fluctuations were altogether eliminated, the same small amount of London money could be used over and over again in financing crop movements in every area.

But the objection to any such system of permanent fixed exchange is quite clear. Whilst all the countries of the Empire remain on the gold standard or the gold bullion standard, it might be feasible for great Imperial banks like the Barclay group, to issue and cash drafts at par, and bear the expense of maintaining sufficiently large balances at either end to act as a "cushion" for the absorption of small movements (between the gold points) in the "natural" rate. This would involve close co-operation with the local Central bank.[1] The process would probably be an

[1] Because the local Central bank's gold reserves—the diminution of which is the danger signal which sets the credit-control mechanism into operation—would not be so sensitive. Here the effectiveness of the credit control of the Central bank would be seriously tested.

expensive one as it would involve the shipment of gold to build up large balances, without any prospect of receiving payment for the expenses of such shipment; but the arrangement would be feasible. On the other hand, if the Dominions chose to adopt independent currency policies and abandon the gold standard, as they are perfectly free to do, it would be impossible to keep exchange rates from moving to equate divergent price-levels.[1] Wilful abandonment of the gold standard is not likely, either on the part of Great Britain or the Dominions, but as a mere possibility it would be sufficient to throw a heavy strain on any fixed rates arrangement in abnormal times. In general even with a fully operative gold standard, some form of credit control cannot be absent, and any scheme of fixed exchange which does not contemplate the conscious adoption of a common monetary policy by each one of the member States of the Empire, will reveal weaknesses in times of stress. Neglect to take account of credit as well as currency control is thus responsible for some of the defects of projects like the Darling scheme, which suggested the creation of a common currency for the Empire but disregarded the constitutional difficulties involved in the pursuit of a common credit policy.[2] The most that can be hoped for, is an extension of the arrangements now applicable to South Africa and Australasia, to the whole Empire. In time the Imperial banks might shoulder *temporarily* the expense of shipping gold themselves and thus bring the gold points together, but the arrangement could never be a permanent one, and would probably be very expensive even for a short time. The Chamberlain Commission considered that even the

[1] And undesirable to attempt it; e.g. in 1924 the Commonwealth Treasurer said: "The English Treasury advocates the keeping of the exchanges between Great Britain and Australia at par. There are, of course, obvious advantages to be derived from the maintenance of a par rate of exchange, but . . . circumstances may arise under which some considerable deviation from par may become necessary. In the first place it would not be proper to tack the Australian pound to the English pound if the latter were depreciated by a policy of inflation."

[2] See *Economic Unity of the Empire* by J. F. Darling, and other pamphlets. The scheme was decisively rejected by the Treasury (*Imperial Economic Conference Report*, 1924, p. 470) and the Imperial Economic Conference itself (*Report*, p. 458).

Indian gold exchange standard system, providing for automatic expansion and contraction of currency at each end of the chain, was not strong enough to fix rates, and they also rejected the proposal that the Secretary of State should never sell below "par." The range of exchange movements, "depending as it does on the cost of freight and insurance to India, is the natural range, and any restriction of it would impose additional responsibilities on the Government for which we find no adequate justification. We consider therefore that the Government should continue to follow the market rate." [1] Commercial banks may well hesitate to accept a responsibility which a Government, under a much better system, is advised not to shoulder.

The process of financial integration within the Empire and of the concentration of banking power in London, though it provides little basis for extravagant expectations like the above, is on the whole, from the economic point of view, advantageous to all the parties concerned. It is of considerable assistance to the overseas banking systems and improves the facilities and broadens the scope of the London Money Market. But some apparent weaknesses in the position have been discovered and it remains to discuss the most important of these. Firstly, the growing strength of the concentration movement seems to add to the already heavy responsibilities of the Bank of England, and suggestions have been made [2] that the presence of so many overseas banks in London is a potential danger to the Bank of England's gold reserve. There are some reasons for believing that the danger is not so serious in the case of the Imperial banks and the local banks of the Empire, even if it exists, on account of the presence of "foreign" banks in general. Firstly, the stake of the South African banks, for instance, in the London Money Market, is small relative to the total resources employed there, and relative also to the French or German interest, a comparison by countries

[1] *Report*, para. 182.

[2] The Cunliffe Committee notably, called the Government's attention to the conditions of the establishment of these banks, and this has apparently had some influence upon the Currency and Bank Notes Act of 1928.

being obviously justifiable in this connection because it is inconceivable that all parts of the Empire should call upon London at once. Similar comparisons apply to the other countries. Even if there were a sudden call for specie from overseas, certainly not all of it would come from London ; the demand would have to be a very persistent one to attract very much, in view of the delay involved in shipment over long distances, and its influence on the Bank of England's gold position could be nullified by expansion of the Fiduciary Issue under the Currency and Bank Notes Act of 1928. The question of the balances of the other overseas banks in London is another matter. It is probably true that the London balances of foreign (especially American) banks are so fleeting that they cause the Bank of England much anxiety, but as the long established practice on the part of the *Imperial* banks is to look to London, where their connections are best, for short-dated investments, there does not seem to be the same reason for considering this money is so amenable to the attractions of fractionally higher money rates in a foreign centre, and these balances are thus not of such a fugitive nature. Therefore, although the Bank of England, in virtue of the dominant financial position of London, has become in fact the Reserve Bank of the Empire, there is little ground for the belief that its increased responsibilities on this score, although substantial, are likely seriously to weaken its position. Co-operation between the "Central" banks of the Empire and the Bank of England [1] should finally be more effective than international co-operation (in terms of the Genoa Resolutions) has been so far, and this will reduce the risk of financial dislocation to a minimum.

If the presence of the Imperial banks in the London Money Market is not a source of weakness, there yet remains another

[1] Not of the usual sort. The bank-rate, for instance, has little influence on monetary conditions in the Dominions—a rising bank-rate causes, if anything, a tendency towards falling rates overseas because of the increased profit on London balances. Co-operation, so far, has taken the form of advice tendered by the Bank, e.g. as in Sir Ernest Harvey's visit to Australia, or Mr. Norman's evidence before the *Hilton Young Commission*. The appointment of Mr. Clegg from the staff of the Bank to the position of Governor of the Reserve Bank of South Africa, is also notable.

criticism of their position which requires investigation. It is commonly said that the organization and control, from London, of a series of branch banks, many of them quite unconnected with each other and situated in all parts of the world, presents very great difficulties in itself, and further exposes the whole institution to the considerable risk of pressure at many points at the same time. The history of the Imperial banks shows that there is something to be said for this. Indian banks (like the Agra Bank and the Oriental Bank Corporation) and Australian banks (in the crisis of 1893) have all felt the force of this argument, and the general problems of controlling branches from centres thousands of miles away were found insoluble by quite a number of banks during the nineteenth century. If these weaknesses really exist at present, then the danger is surely increased for the English joint-stock banks which are in process of amalgamating with the Imperial banks, and in one case actually operating Indian branches as part of their own organization.

Although the bare problems of organization may seem at first sight very formidable, there is really no ground for believing that they are impossible to solve at the present day. The early difficulties of the first overseas banks, in days of slow and irregular communication, may well have seemed almost insuperable. As a result of this, excessive reliance upon the integrity and business acumen of the colonial staff led naturally, as in the case of the Colonial Bank, the Eastern Exchange banks and most of the others at various stages in their career, either to fraud or to gross mismanagement. (It is no doubt the many severe lessons learnt by the Eastern banks in this way, which deter them from relying too much upon the native staff.)[1] Later there came a reaction against this, typified by the Bank of British Columbia, with all the attempts at supervising the details of daily business by a most elaborate system of checks and rules, not insisted upon so much when profits were being

[1] Hence the accusations against the Eastern banks for not employing Indians in executive positions, e.g. "Training Indians for Bank-managerships," *Capital*, April 1, 1920, and Thakur, *Organisation of Indian Banking*, Chapter 3.

made but effective only when the damage had been done, and in general crippling the bank in its competition with more vigorous, because less hampered, local institutions. But an experience of nearly a century (the English banks are unique in this respect) has not been without effect in enabling the Imperial banks at present to steer a middle course, and with greatly improved means of communication and a higher standard of integrity in the banking profession, there is no reason to fear that the obstacles of organization will prove insurmountable in the future. If, ninety years ago, a London bank could operate successfully half a dozen branches on the other side of the world, a world-wide network of hundreds should surely not be beyond the capacity of a present-day Imperial bank. The fact that the branches, as in the Barclay amalgamation, have amongst themselves no organic connection except their common responsibility to a London Head-office, is of no importance from the point of view of organization, though it may be of some account in diminishing the aggregate risk of the whole concern.

The disastrous failure of the Oriental Bank Corporation in 1884, though an apparently conspicuous exception to this, was in fact not due to defects of organization at all. The bank, the most famous of the Eastern Exchange banks of those days, was operating, at the time of its failure, a far more widely scattered network of branches than any Imperial bank at present—Bombay, Calcutta, Colombo, Cape Town, Durban, Foochow, Hiogo (Kobe), Hongkong, Kandy, Madras, Mauritius, Melbourne, Port Elizabeth, Sydney, Point de Galle, Shanghai, Singapore, and Yokohama, with dozens of sub-agencies dependent on these branches and the inevitable Deposit Agency at Edinburgh. The collapse was due to no one cause—the failure of the Ceylon coffee crop, hurricanes at the Mauritius, some unfortunate adventures in connection with the unsuccessful flotation of Chilian loans, and the cumulative fall in the rupee, came one after another as a series of misfortunes when the Bank was in a most awkward position, a considerable part of its liquid capital having been locked up in

railway shares and in advances to planters in Ceylon against land. Reports of losses in the East caused a drop in the Bank's business all over the world and, anxious to contract its commitments, it transferred the South African business bodily to the Bank of Africa. "Since then, there can be no doubt that the bank has been steadily losing caste." [1] Bear operations in its shares depressed its business everywhere and reconstruction was finally proposed in 1884. The Chairman, while acknowledging the folly of excessive advances on land in the colonies, blamed the rigidity of the charter for forcing reconstruction,[2] but made no mention of the difficulties of controlling the Eastern or colonial branches, and there is no other evidence to show that the Bank foundered because it could not cope with the difficulties of organization. *The danger of pressure at one point reacting unfavourably upon the whole concern* is however admitted, and certainly well exemplified in this case. There is thus even at present a corresponding need for caution in the control of a large number of branches all over the world from a centre in London, especially where the control is exercised directly or indirectly by an English joint-stock bank—the failure of an Imperial subsidiary would certainly endanger its own domestic position.

Another peculiar characteristic of the position of the Imperial banks may cause difficulties, where control is retained by a parent English bank. Dominion and colonial banking problems are very different indeed from those of Great Britain,—a large proportion of total advances, for instance (Sir George Elliott suggested as much as one-third in New Zealand), is granted against pastoral and agricultural land, a practice which is not likely to appeal to English bankers. More of this business should undoubtedly go to Rural Credits Departments or special Land Banks overseas, but at present it is difficult to see what other security the commercial banks could ask for. Land advances in the Dominions are as a general rule more

[1] *Bankers' Magazine*, June 1884.
[2] Capital could not legally be written down to make good losses. This clause also forced reconstruction of the Chartered Mercantile Bank of India in 1892.

liquid than similar advances at home because the pressure of "Closer Settlement" movements, combined with the facilities offered by legislation like the Torrens Act, make land a more marketable security, so that the danger of "frozen" advances is not quite so serious as appears at first sight. Produce advances are also much more important in the great agricultural areas of the Empire than they are at home; this kind of business has only recently been cultivated by English bankers and is even now handled very gingerly though the conditions are much more favourable, the produce either arriving already sold, or offered in store in a marketable condition for a quick sale in London. The circumstances in the Dominions are very different; the banks are forced to make produce advances much more freely. In Canada, for instance, they are specifically permitted by the Bank Act to lend upon the security of standing timber, or to the owner or occupier of land, for the purchase of seed grain upon the security of future crops, or to lend generally to any dealer in or shipper of "the products of agriculture, the forest, quarry and mine or the sea, lakes and rivers," upon the security of such products. To provide for all this, of course, the banks of the Empire have normally a much larger proportion of capital to deposits than the English institutions, and their business is thus differently capitalized and differently worked. These practices have been reinforced by the experience of many years and it seems unlikely that much danger is to be apprehended if capital is adequate. It is quite conceivable, however, that some of the recent amalgamations will tax the adaptability of English bankers severely, and in this connection it will be interesting to observe whether the practice of collecting English deposits, for use abroad, will be favoured by the English banks. If it is, it is possible (though unlikely) that domestic deposits may be passed on in the form of loans to colonial subsidiaries. This would be a most unwise policy and has in fact been already disavowed publicly in at least one important instance.[1]

[1] "The total of deposits received in that country (India) largely exceeds the amount of our advances, and no portion of our deposits at home is used for the purpose of making loans in India."—Mr. Beaumont Pease at the 1928 Annual Meeting of Lloyds Bank.

To sum up, the integration movement in Empire banking is explained by the dominance of London in the Imperial financial organization. The position of the Imperial banks, controlled and capitalized from London, is thus to some extent vindicated in the economic sense, though it does not afford much consolation to Nationalist feeling in the Dominions, which in South Africa at least is distinctly favourable to the creation of more local banks. In the later stages, the movement has led to the direct control of Imperial banks by the great English institutions, but this development brings few unknown difficulties essentially different from those already experienced in the nineteenth century and up to the present. Connections existed when the Imperial banks first began to operate in London, nearly a century ago, and perhaps the most important difference at present is not that the connections are firmer and more numerous, but that they are more obvious. The Imperial banks have in the Empire, on the whole, a long and honourable record of public service, and if objection is felt overseas to their incorporation in larger English banks, the remedy, either in the creation of more local banks or in the more strict local supervision of the existing institutions, is at hand. From the regulatory provisions of a well-drafted local Bank Act, (now long overdue in India, Australia and S. Africa), the Imperial banks have nothing to fear, and the Central banks, the only essentially new factor in the position, will find it difficult to exercise fully effective control over them while they depend upon London so largely as they do at present.

# APPENDIX I

TRADE OF UNITED KINGDOM WITH BRITISH EMPIRE AND FOREIGN COUNTRIES, 1919–1926.

(From the *Statistical Abstract*, 1928.)

| | 1919. | 1920. | 1921. | 1922. | 1923. | 1924. | 1925. | 1926. |
|---|---|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ | £ | £ |
| Total Imports : | | | | | | | | |
| From Foreign Countries . | 1,043,585,573 | 1,391,860,169 | 765,896,407 | 693,125,764 | 781,013,165 | 905,841,365 | 917,513,264 | 879,726,633 |
| From British Countries . | 582,570,639 | 601,390,029 | 379,544,144 | 354,614,192 | 368,810,759 | 421,321,189 | 455,275,376 | 411,380,255 |
| Total Exports : | | | | | | | | |
| To Foreign Countries . | 748,122,665 | 1,096,489,586 | 560,127,357 | 557,547,433 | 605,026,713 | 621,164,156 | 605,595,411 | 462,538,321 |
| To British Countries . | 215,262,012 | 564,791,417 | 321,585,051 | 323,728,208 | 349,896,932 | 381,615,092 | 383,658,111 | 354,089,580 |



S

Total Value of Imports (including Bullion and Coin) into the following Countries from (*a*) United Kingdom; (*b*) Other British Empire; (*c*) Foreign Countries.

(From the *Statistical Abstract of the British Empire.*)

| | Canada. | Australia. | New Zealand. | South Africa. | Newfound-land. | India. | West Africa. | East Africa. | East Indies and Ceylon. | West Indies. |
|---|---|---|---|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| 1919 | 15,012,774 | 34,584,611 | 11,523,653 | 25,472,355 | 403,303 | 60,616,587 | 17,727,233 | 5,044,841 | 19,922,284 | 4,283,767 |
| | 10,408,598 | 21,923,750 | 8,057,539 | 7,710,335 | 2,855,562 | 30,129,756 | 898,231 | 7,849,643 | 99,369,608 | 5,524,992 |
| | 163,630,478 | 45,826,798 | 11,090,506 | 19,222,977 | 3,495,556 | 91,398,800 | 4,333,206 | 2,991,927 | 102,876,484 | 11,978,275 |
| 1920 | 25,974,541 | 38,516,436 | 28,554,587 | 59,871,474 | 953,176 | 143,847,619 | 34,694,349 | 7,090,904 | 62,719,135 | 10,320,324 |
| | 9,864,411 | 14,274,499 | 15,289,940 | 11,416,244 | 4,108,856 | 40,041,759 | 1,610,126 | 11,176,159 | 151,037,623 | 6,824,974 |
| | 182,980,718 | 46,183,357 | 17,751,301 | 33,361,874 | 3,269,831 | 130,902,307 | 7,468,390 | 4,336,458 | 119,043,430 | 18,139,577 |
| 1921 | 43,983,684 | 76,849,934 | 20,832,520 | 34,156,062 | 664,007 | 239,389,830 | 16,301,776 | 8,881,078 | 26,387,830 | 7,145,833 |
| | 10,700,300 | 18,436,488 | 10,317,074 | 5,941,845 | 3,245,757 | 22,227,730 | 1,174,365 | 8,961,469 | 63,722,830 | 4,906,145 |
| | 201,721,423 | 68,515,404 | 11,792,849 | 17,573,474 | 2,032,791 | 136,742,236 | 3,580,503 | 4,084,451 | 66,078,613 | 11,024,756 |
| 1922 | 24,079,369 | 53,001,926 | 18,296,173 | 29,080,026 | 418,556 | 119,098,177 | 16,389,699 | 7,318,448 | 21,878,010 | 6,003,166 |
| | 6,572,439 | 12,904,933 | 7,703,113 | 5,205,364 | 1,952,822 | 26,260,181 | 1,212,181 | 3,233,542 | 61,984,328 | 4,635,573 |
| | 124,047,778 | 37,159,577 | 9,013,275 | 16,342,585 | 1,371,758 | 73,983,822 | 3,503,280 | 5,024,736 | 67,449,240 | 8,534,137 |
| 1923 | 29,053,980 | 68,394,423 | 22,532,205 | 31,078,854 | 643,513 | 126,405,298 | 17,094,094 | 6,929,059 | 23,354,391 | 8,123,834 |
| | 7,870,477 | 15,480,628 | 9,313,727 | 7,039,544 | 1,824,352 | 14,819,771 | 931,477 | 3,645,253 | 75,305,620 | 5,110,493 |
| | 133,488,185 | 47,882,784 | 11,532,561 | 18,451,983 | 1,503,843 | 75,154,388 | 4,914,199 | 5,422,433 | 91,327,713 | 8,858,858 |
| 1924 | 31,571,681 | 63,607,743 | 23,203,825 | 33,907,581 | 1,284,796 | 110,270,682 | 16,221,003 | 11,495,663 | 25,896,263 | 6,921,609 |
| | 8,596,179 | 17,402,998 | 12,627,084 | 7,549,129 | 2,567,060 | 16,230,652 | 1,252,547 | 4,709,212 | 82,303,361 | 5,140,714 |
| | 144,187,430 | 59,607,552 | 12,696,694 | 22,879,114 | 1,837,343 | 77,707,939 | 6,130,739 | 6,900,795 | 102,292,207 | 7,793,818 |
| 1925 | 31,056,982 | 69,047,807 | 25,572,802 | 33,910,787 | 2,334,615 | 111,499,867 | 19,540,742 | 12,486,448 | 37,237,595 | 6,999,188 |
| | 9,024,288 | 21,556,016 | 12,689,474 | 8,601,384 | 2,979,094 | 32,265,028 | 1,189,592 | 5,264,811 | 116,954,560 | 5,398,716 |
| | 124,584,112 | 66,539,473 | 14,194,131 | 24,098,079 | 2,169,474 | 104,720,991 | 7,499,648 | 6,924,866 | 160,506,514 | 8,250,411 |

"West Africa" includes Gambia, Sierra Leone, Gold Coast and Nigeria; "East Africa" includes North and South Rhodesia, Zanzibar Protectorate, Kenya and Uganda Protectorate, Nyasaland Protectorate and Somaliland Protectorate and Anglo-Egyptian Sudan; "East Indies" includes British Malaya, Straits Settlements and Federated Malay States. "West Indies" includes Bermuda, Bahamas, Barbados, Grenada, Jamaica, Cayman Islands, Turks and Caicos Islands, Leeward Islands, St. Lucia, St. Vincent, Trinidad and Tobago, British Honduras, British Guiana. The second of the three series of figures in the table is thus inflated by duplications, as far as the countries included under the above generic terms are concerned.

TOTAL VALUE OF EXPORTS OF DOMESTIC PRODUCE (INCLUDING BULLION AND COIN) FROM THE FOLLOWING COUNTRIES TO (*a*) UNITED KINGDOM; (*b*) OTHER BRITISH EMPIRE; (*c*) FOREIGN COUNTRIES.

| | Canada. | Australia. | New Zealand. | South Africa. | Newfoundland. | India. | West Africa. | East Africa. | East Indies and Ceylon. | West Indies. |
|---|---|---|---|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ |
| 1919 | 111,154,367 | 59,452,601 | 44,198,781 | 77,029,268 | 513,975 | 46,851,193 | 19,745,661 | 5,559,547 | 45,866,110 | 9,054,065 |
| | 13,239,589 | 25,145,844 | 4,549,511 | 2,581,001 | 769,935 | 38,194,314 | 585,278 | 4,137,670 | 79,661,084 | 4,563,391 |
| | 125,652,826 | 21,428,356 | 4,556,092 | 15,327,511 | 6,181,562 | 84,461,095 | 7,867,964 | 1,763,531 | 128,652,107 | 6,433,425 |
| 1920 | 100,548,042 | 79,546,125 | 34,250,345 | 59,458,140 | 1,301,548 | 94,960,362 | 24,746,668 | 9,059,695 | 44,121,172 | 11,762,557 |
| | 14,930,603 | 24,421,711 | 3,658,490 | 2,049,255 | 786,557 | 44,306,941 | 981,554 | 5,319,831 | 92,250,049 | 6,638,306 |
| | 139,305,842 | 40,601,488 | 7,683,459 | 15,002,971 | 4,967,293 | 191,559,270 | 7,819,087 | 2,646,474 | 161,961,782 | 8,532,281 |
| 1921 | 64,307,002 | 66,507,778 | 38,471,259 | 46,264,544 | 1,256,200 | 53,123,598 | 10,524,559 | 7,313,459 | 19,244,212 | 5,747,416 |
| | 18,625,851 | 22,722,997 | 2,349,605 | 2,945,262 | 598,523 | 50,386,281 | 840,483 | 3,350,147 | 47,866,635 | 3,233,681 |
| | 166,515,503 | 37,199,906 | 2,794,594 | 7,640,680 | 2,656,064 | 156,997,547 | 4,721,771 | 2,220,231 | 74,760,077 | 4,365,592 |
| 1922 | 61,535,455 | 57,100,422 | 35,990,360 | 44,747,519 | 987,757 | 30,743,960 | 10,688,577 | 5,781,249 | 21,679,680 | 4,443,289 |
| | 9,553,042 | 16,151,003 | 2,389,901 | 1,428,950 | 437,991 | 31,583,647 | 546,686 | 2,322,365 | 37,581,273 | 4,022,784 |
| | 84,789,743 | 50,236,087 | 3,318,887 | 9,557,225 | 2,511,121 | 101,841,294 | 6,923,795 | 3,405,519 | 98,098,203 | 4,858,896 |
| 1923 | 77,919,419 | 51,523,341 | 37,213,621 | 57,020,655 | 1,423,902 | 44,052,914 | 11,280,894 | 7,337,217 | 32,145,833 | 6,310,699 |
| | 12,292,533 | 12,223,836 | 3,622,813 | 3,614,361 | 527,493 | 30,956,865 | 661,381 | 2,863,883 | 49,079,387 | 4,380,253 |
| | 101,616,090 | 51,004,132 | 4,535,474 | 11,260,741 | 2,294,969 | 135,018,084 | 9,464,769 | 3,892,547 | 126,142,862 | 5,443,983 |
| 1924 | 74,011,877 | 44,583,940 | 41,799,788 | 47,129,644 | 1,548,278 | 57,780,214 | 12,954,020 | 8,824,157 | 33,435,535 | 5,063,396 |
| | 15,732,932 | 13,347,188 | 3,713,843 | 15,887,566 | 524,796 | 29,873,506 | 694,004 | 4,224,008 | 55,122,185 | 4,656,540 |
| | 127,706,796 | 58,231,417 | 6,407,197 | 11,461,021 | 1,947,991 | 155,237,728 | 12,700,000 | 4,281,560 | 135,889,012 | 4,885,294 |
| 1925 | 81,367,817 | 68,624,881 | 43,833,653 | 47,159,154 | 1,450,460 | 65,243,540 | 13,993,513 | 10,388,355 | 53,357,633 | 6,007,843 |
| | 16,293,563 | 15,069,303 | 3,091,819 | 20,278,884 | 439,624 | 31,369,886 | 698,650 | 3,734,837 | 75,854,193 | 3,561,434 |
| | 122,697,404 | 75,248,233 | 7,595,559 | 15,721,733 | 2,705,669 | 172,900,189 | 15,152,392 | 4,861,338 | 245,045,756 | 5,518,507 |

# APPENDIX II

ALPHABETICAL LIST OF EMPIRE BANKS TO WHICH ROYAL CHARTERS HAVE AT ANY TIME BEEN GRANTED.

(From *Confidential Memorandum on Chartered Banks*, by E. W. Hamilton, of the Treasury, April, 1877).

| Name. | Date of Incorporation. | Date of Charter or Supplementary Charters if any. | Whether carrying on Business or not. | If so under what Powers. |
|---|---|---|---|---|
| Agra and United Services Bank | 29/5/1857 | None | Under the name of the "Agra Bank, Ltd.," the Agra and United Services Bank, in 1865, amalgamated with Messrs. Masterman under the Companies Act, 1862, and became the "Agra & Mastermans Bank, Ltd." In 1866 the Bank failed, but the following year was resuscitated under the name of the "Agra Bank, Ltd." | Companies Act, 1862. |
| Asiatic Banking Corporation | 19/2/1864 | None | Failed in panic, 1866. | — |
| Bank of Egypt | 25/1/1856 | 21/11/1876 | Yes | Royal Charters. |
| Bank of Australasia | 21/5/1835 | 16/3/1841<br>19/12/1856<br>18/5/1857 | Yes | Royal Charters. |
| Bank of British North America | 23/4/1840 | 5/10/1852<br>6/6/1859<br>2/11/1869 | Yes | Royal Charters. |
| Bank of British Columbia | 31/5/1862 | 30/8/1864 | Yes | Royal Charters. |
| Bank of Montreal | 31/5/1837 | None | This bank was incorporated by a Colonial Act for a limited period; the Royal Charter was only granted to it in order that the bank might have power to carry on business while it was taking the necessary steps to obtain an extension of banking privileges from the Colonial Legislature. | Colonial Charters and Statutes. |

| | | | | |
|---|---|---|---|---|
| Bank of South Australia (formerly South Australian Banking Co.). | 3/9/1847 | 5/7/1866 | Yes | Royal Charter. |
| Ceylon Bank . . . . . . | 24/9/1840 | 17/11/1842 | The business of this Bank in 1848 became vested in the proprietary of the Oriental Bank and its Charter was cancelled in 1857 on the bank being amalgamated with the Oriental Bank, which was granted a charter. | — |
| Chartered Bank of Asia . . . | 29/12/1853 | None | On the failure of negotiation to amalgamate this bank with the Mercantile Bank of India, London, and China, it was determined to dissolve the Company in 1856. | — |
| Chartered Bank of India, Australia and China. | 29/12/1853 | 20/7/1861<br>10/11/1874 | Yes | Royal Charter. |
| Chartered Mercantile Bank of India, London and China. | 15/9/1857 | None | Yes | Royal Charter. |
| Colonial Bank . . . . . . . | 1/6/1836 | 30/10/1838 | Yes | Act 19 Vict. c. 3 (local and personal), "The Colonial Bank Act, 1856." |
| Commercial Bank Corporation of India and the East. | 19/2/1864 | None | Failed in panic of 1866. | — |
| English, Scottish and Australian Bank. | 31/12/1852 | 25/11/1873 | Yes | Royal Charter. |
| Ionian Bank . . . . . . . | 18/1/1844 | None | Yes | Royal Charter and Charter from Greek Government. |
| London Chartered Bank of Australia. | 2/12/1852 | 25/11/1873 | Yes | Royal Charter. |

| Name. | Date of Incorporation. | Date of Charter or Supplementary Charters if any. | Whether carrying on Business or not. | If so under what Powers. |
|---|---|---|---|---|
| London and Eastern Banking Co. | 20/1/1855 | None | The Bank failed in 1857, was dissolved and wound up. | — |
| London and South African Bank [1] | 17/11/1860 | 19/2/1864<br>15/6/1865 | Yes | Royal Charter. |
| Mauritius Bank | 20/6/1831 | None | Wound up. | |
| Mauritius Commercial Bank | 26/8/1839 | None | Yes (it was believed so). | Colonial Ordinance. |
| Oriental Banking Corporation (originally known as Western Bank of India). | 30/8/1851 | 16/2/1859<br>22/8/1873<br>26/10/1875 | Yes | Royal Charter. |
| Ottoman Bank | 24/5/1826 | 25/11/1862 | Dissolved in 1863 in consequence of the formation of the Imperial Ottoman Bank, with which the shareholders of the old "Ottoman Bank" formed a union. | — |
| Quebec Bank | 31/5/1837 | None | This Bank apparently only carried on banking business for a very limited period under the power of its Royal Charter, but was afterwards incorporated by Colonial Charter. | Colonial Charters and Acts. |
| West India Bank | 27/11/1840 | — | No trace of this Bank after 1842. | — |

[1] The London and South African Bank has since this memo was written become amalgamated with the Standard Bank of British South Africa, Limited, and its Charter therefore is revocable.

# APPENDIX III

EXPANSION OF THE IMPERIAL BANKS.

(Figures from the *Bankers' Almanac* and the Public Records.)

| Date. | Number of Banks. | Paid-up Capital. | Branches and Sub-Branches. | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Total. | Australia. | New Zealand. | Canada. | West Indies. | India and Far East. | South and East Africa. | West Africa. | Elsewhere. |
| | | £ | | | | | | | | | |
| 1835 . . | 1 | 200,000 | 1 | 1 | — | — | — | — | — | — | — |
| 1845 . . | 8 | 3,513,640 | 46 | 22 | — | 8 | 12 | 4 | — | — | — |
| 1855 . . | 10 | 6,193,580 | 82 | 34 | 4 | 13 | 14 | 17 | — | — | — |
| 1865 . . | 25 | 16,499,171 | 240 | 66 | 21 | 16 | 13 | 95 | 28 | — | 1 |
| 1875 . . | 17 | 12,395,875 | 280 | 116 | 54 | 23 | 14 | 41 | 29 | — | 3 |
| 1885 . . | 17 | 13,210,875 | 482 | 260 | 72 | 15 | 14 | 42 | 77 | — | 2 |
| 1895 . . | 19 | 12,940,062 | 604 | 321 | 76 | 22 | 13 | 40 | 126 | 3 | 3 |
| 1905 . . | 19 | 12,389,850 | 848 | 390 | 93 | 46 | 13 | 45 | 246 | 10 | 5 |
| 1915 . . | 18 | 15,381,122 | 1,169 | 523 | 150 | 99 | 19 | 68 | 277 | 26 | 7 |
| 1925 . . | 13 | 45,609,077 | 1,754 | 715 | 183 | — | 22 | 74 | 690 | 58 | 12 |
| 1927 . . | 13 | 45,609,077 | 1,783 | 731 | 186 | — | 22 | 75 | 701 | 56 | 12 |

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